



DEVELOPMENT OF EFFECTIVE MARKETS

United Utilities response to Ofwat's letter 16 September 2019

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DEVELOPMENT OF EFFECTIVE MARKETS

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United Utilities welcomes the opportunity to set out our approach to supporting market development.

In Rachel Fletcher's previous letter dated 28 May 2019 Ofwat noted that it could "see numerous, persistent examples of water companies failing to support the development of effective markets". We recognise that the success of the markets is dependent upon the active involvement and support of water companies and believe that we have been one of the companies who actively play a proactive and constructive role in the development of effective markets.

UU led the way in supporting the development of the non-household retail market, being one of the original founders of MOSL. We have overseen vibrant competition in the developer services market, having for many years seen nationally the greatest rate of self-lay activity. We have also demonstrated active engagement and leadership in new forms of competition including the Bid Assessment Framework (BAF) and direct procurement. This response sets out many areas where we consider that the company is making, or has made, a positive contribution to the development of effective markets in the sector. We do, however, recognise that there are areas for improvement. Key actions that UU is implementing and focus areas for industry attention are also highlighted within our response and the main points summarised below:

UU actions include:

- Continuing to improve our data quality in the NHH retail market, specifically in relation to unpaired Supply Point IDs (SPIDs) and the timeliness of submitting new connection data.
- Undertaking additional customer research to better understand the impacts that our actions have on the end customer in the NHH market and what improvements can be made to support a better end user experience.
- Supporting retailers in addressing long unread meters by providing data we obtain from passive meter reads and trade effluent meter reads.
- Continuing to work on the development of the market framework for Bioresources and Water Resources.
- Work to better understand the needs of developer services customers, maintaining the high levels of engagement and improving service through our new developer services structure.
- Utilising the incentive payment mechanisms available through our proposed AMP7 performance commitments to improve vacancies and gap sites.

Industry wide issues include:

- Reviewing performance incentives to ensure that they provide sufficient incentive to drive improvements, potentially including qualitative measures for performance of wholesalers.
- Development of a bilateral portal for the NHH market to provide efficiencies for retailers.
- Reviewing the D-MeX measure to ensure that it appropriately balances incentives between one-off developer services customers and developers, and SLPs who provide the majority of connections.
- Taking forward an approach which will identify and facilitate more standardisation of wholesale charges whilst recognising the need to consider and manage incidence effects on end user charges

Annex A: Question relating to your Board's support for the development of effective markets

Please provide a description of how your Board engages in and discusses plans for the company's work to support the development of markets. For example, is there a designated Board Committee, is there a designated part of the agenda for regular Board meetings dedicated to discuss this? How does the Board ensure that staff have the time they need to be able to raise any issues, get the support and resources they need for work concerning the development of markets?

A1. Board input and direction setting

The UUW Board is actively involved in the company's work to support the development of new competitive markets.

Overview of the operation of the Board

The UUW Board is made up of a non-executive Chairman, 7 other non-executive directors and 2 executive directors.

Its role is to provide entrepreneurial leadership of the Company within a framework of prudent and effective controls which enables risk to be assessed and managed. The Board therefore sets the Company's strategic aims, seeks to ensure that the necessary financial and human resources are in place for the Company to meet its objectives and reviews management performance. The Board is also expected to lead on the Company's purpose, values and strategy and seek to ensure that its obligations to stakeholders including shareholders and others are understood and met.

The specific board input to a number of recent or ongoing market developments is summarised below.

The Board cannot meet on a day to day basis and therefore has to delegate other powers to a number of principal board committees, principal management committees and supporting sub-groups. The accountabilities and delegated authorities of these groups and the way that they operate to ensure that the Board are made aware of any key issues that need Board guidance or decisions are summarised in the section below. First, however, we set out specific Board input which has supported UU's work in the development of effective markets.

Specific Board input to support the development of effective markets

Non-Household retail market reform

The Cave review and subsequent 2011 publication of the Water White Paper created an impetus within UU to consider the impact of a NHH retail market and how we may react to those changes. In October 2011 the Board commissioned and received work from [REDACTED] which helped it understand the challenges and potential that the creation of a non-household retail market would bring. The potential for reform of the non-household retail market, was also highlighted to and discussed with the Board in the lead up to the PR14 process and then throughout the development of the PR14 process.

As a consequence of the potential establishment of this new market, UUW proactively established a separate non-household retail business unit. This business unit was headed up by a newly appointed Business Retail Director who had accountability for understanding the potential issues that could emerge and ensuring that the plan for resolving these issues was reviewed and agreed with the executive and the Board. The Business Unit was established to move towards functional independence from the rest of UUW and as a consequence began to develop independent systems, processes and moved to standalone offices.

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A specific board paper on the detailed process, timescales and risks associated with the development of the new non-household retail market was discussed at the UUW Board in November 2015. This paper set out the overall timescales and accountabilities for various bodies within the process, including the UUW Board. It also highlighted the required scope of work and the level of assurance that was expected, including the need for three signed Board Assurance Statements at key points within the programme and obtained agreement for the assurance framework that would be applied to ensure that the Board could actively fulfil these obligations. See evidence item 1: *UUW Board paper: Market Reform – Final Board Assurance Letter*.

Progress with the programme was then reviewed via routine operational and regulatory reports to the Board, with three additional and specific Board papers being presented and reviewed in advance of each of the three Board Assurance letters. In addition a specific Board paper was presented and discussed in March 2017 reviewing risk management immediately prior to market opening, with a further Board paper in April 2017 reviewing the market opening process and to ensure that any risks were brought to the attention of the Board and action plans could be established.

As part of this review process and at a critical point in the programme of the NHH market opening, it was agreed that UU should work with two other companies to take the lead in establishing MOSL. Our CEO joined the Board of MOSL and UU seconded staff to key organisational roles to ensure that it could effectively fulfil its obligations in the opening and then ongoing operation of the market.

Following the opening of the NHH retail market UUW's hands on wholesaler accountabilities for operating within the market passed to the executive, who are accountable for providing progress and risk updates through the company's established governance processes.

Developer services

The Board has also actively supported UUW in being very active and proactive in the developer services market. As set out in our answer to question C1, UUW has been a leading player in the development of the developer services market for some time. The department has been restructured ensuring that any risks, issues or opportunities are raised through the established governance and risk management processes and to ensure that the staff within this department have the support and resources they need to continue to play a leading part in the development of this market.

Developing markets

The establishment of potential new markets through the price review process has been highlighted to and reviewed with the Board as part of the build up to and development of the PR19 process. The key input to these markets is summarised below:

Bioresources - To ensure that we could play our part in the Bioresources market, the Board agreed to the establishment of a Bioresources business unit headed up by newly appointed (non-statutory) Director who was accountable for developing a business plan for both regulated and potential non-regulated operations, which highlighted potential risks and opportunities presented by the new market, rather than simply focusing on effectively operating the existing regulated business.

Water Resources - To ensure that we could support the potential water resources market and support the broader benefits of water trading, the Board supported the company in developing potential models of system operation and in driving proposals for transferring water from the Severn to the Thames. These and other plans have now being included in the PR19 draft determinations. We also recently supported the appointment of a UU manager to the role of Director of Water Resources West who has accountability for ensuring that issues and opportunities are identified and managed on a regional or national basis, not simply on a company specific basis.

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We also developed and are continuing to enhance an industry leading Bid Assessment Framework. This framework is in place and can play a key role in developing the use of markets to deliver better outcomes in relation to the provision of water resources.

Direct Procurement - Through the PR19 process the Board also approved the need to make substantial investment to address the risks to the resilient supply of water to the Manchester and Pennines areas as a consequence of risks to the structural integrity of the Haweswater Aqueduct and actively supported the company's proposals to include this within our PR19 business plan as a direct procurement scheme.

To ensure that this programme had the support and resources required to actively progress towards a successful Direct Procurement for Customers (DPC) outcome, a programme director was appointed, with a clear risk management and governance process being established to ensure that issues could be escalated to executive or board level as and when required. As a consequence of this focus, U UW is making very good progress on this process and has been asked to support other companies, who can benefit from our learning.

A2 Board oversight, governance and risk management processes

The Board manages the effective and efficient delivery of its obligations and operations as well as everyday activities within the business through:

- **Authorisations, approvals and procedures:** These are set out in the United Utilities Group PLC (UUG) Internal Control Manual (ICM) to provide guidance to employees as to the system of internal controls that they must follow when acting on behalf of United Utilities as a whole. The ICM sets out a framework within which underlying detailed procedures and policies operate.
- **Policies:** The Board has adopted an overriding set of business principles. These are supported by a range of underlying policies that provide guidance to its employees as to how they should conduct themselves when acting on behalf of United Utilities as a whole. Everybody working for or on behalf of United Utilities must comply with the policies (to the extent they are applicable to their roles). Failure to do so may result in disciplinary action being taken. This could lead to dismissal and possible civil or criminal proceedings in serious cases.
- **Governance and control:** The Board delegates responsibility for specific matters to a number of committees and working groups. This provides a framework that employees are expected to be aware of and comply with, where relevant to their role, to ensure business decisions are taken in accordance with best business governance practices.

To oversee and take decisions affecting the execution of its obligations, the U UW board:

- Receives and reviews performance reports from the relevant employees of the Company.
- Receives and reviews reports and presentations from the UU Corporate Audit Team, the financial and technical Auditors.
- Receives and reviews reports and presentations from the following directorates: wholesale; customer service and people; economic regulation and strategy; and finance.
- Has access to executive and senior managers in the Company to verify information.

To ensure that issues are appropriately communicated with key stakeholders, should any significant regulatory risk or issue materialise - including issues associated with new or emerging markets - then U UW will update Ofwat and any other relevant water industry regulator, to demonstrate that the company is aware of its responsibilities with regard to the issue and is responding appropriately to manage the issue.

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This was the case with the development of Water Plus, where it was ensured that Ofwat was kept informed of the nature and extent of the initiative and the way that we planned for and managed the issues that arose.

A2.1 Key governance groups

To effectively manage the company, the Board delegates responsibility for specific matters to a number of committees, groups and sub-groups.

The role and accountabilities of these committees are published within our Annual Report <http://unitedutilities.annualreport2019.com/governance/corporate-governance-report> with full details being set out and published in our Internal Control Manual (ICM).

The corporate governance section of the ICM sets out the responsibilities of the Board, senior management and corporate audit in ensuring that the company is correctly governed. It also sets out the company’s business principles which guide staff conduct. A key aim of our approach to corporate governance is to facilitate effective, efficient operation of everyday activities within UU, provide assurance over the quality of internal and external reporting, ensure compliance with laws, regulations and internal policies and to provide assurance to the board of directors, who remain responsible for the governance of the company, as stated in the UK Corporate Governance Code (“the UK Code”).

The organisation and roles of the key committees, groups and sub groups that we operate are set out in the diagram below.

United Utilities governance structure



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Information on the progress of developing markets and the steps being taken to meet changing obligations, is provided to the board and executive through a large number of different routes and via a number of these committees, sub-committees and management groups. The specific roles that some of these groups play is summarised below:

Strategy Steering Group/Executive (Principal Management Committee).

- This is the principal management committee that meets on a monthly basis and is where the following issues are reviewed:
 - Operational performance issues are discussed including performance and performance issues in relation to competitive markets.
 - See evidence item 2: *Quarterly update to SSG, Jan 19; slides 6 - 7*, which includes a section of a standard item on performance in the NHH retail market. Included within this information is a view of comparative performance and details of issues arising. This is a quarterly report which first commenced in May 2017.
 - Organisational changes necessary to meet obligations stemming from interaction with comparative markets. The SSG meeting provides a route through which significant changes to the way we need to operate can be raised and considered.
 - A summary of ongoing casework and any issues arising from casework has also been provided to the group, on a monthly basis since January 2015. This report highlights issues, actions and lessons learnt from casework across the industry.
 - See evidence item 3: *Ofwat casework report*, an example of a paper going to SSG setting out on going industry and UU casework.

P&R Group (Political and Regulatory Steering Group) (Principal Management Committee)

- Is the principal management committee that meets twice monthly and is where responses to consultations and information on the initial development of markets from Ofwat and Defra are reviewed.
 - P&R group is informed of significant regulatory consultations and engaged to provide views on the best way to respond.
 - See evidence item 4: *P&R group paper – response to Ofwat consultation: Strengthening wholesaler performance in the NHH retail market*, an example of a paper going to P&R group setting out the detail of an Ofwat consultation and the points to be considered as to how best to respond.

Audit Committee (Principal Board Committee)

- The Audit Committee monitors, reviews and provides challenge on the effectiveness of the company's internal control systems and risk management systems.
 - Confirmation that the controls and processes are being adhered to is continually tested by the internal audit team. The Audit Committee receives updates on the findings of internal audit's investigations and key activities relating to the company's risk management systems and processes at every meeting, prior to reporting any significant matters to the board.
 - The audit committee was also responsible for reviewing the company's whistleblowing arrangements, up to 31 March 2019. From 1 April 2019 responsibility for overseeing the group's whistleblowing arrangements transferred to the board, reflecting the 2018 UK corporate governance code.

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GARB (Group Audit and Risk Board) (Principal Management Committee)

- Is the principal management committee that monitors compliance with the governance framework and is responsible for the identification of emerging themes and trends. The minutes of the GARB are reported to the Audit Committee.
 - The GARB provides an Executive review of governance processes, risk management and internal control; their adequacy, effectiveness and performance.
 - The GARB receives a regular update on the issues arising in relation to competition law and the level playing field, including outputs from the CACG. Information from GARB and CACG are taken to Audit Committee if deemed necessary.

CACG (Competition Act Compliance Group) (Sub-group)

- Is the management sub-group that provides the principal route for escalation of concerns and questions relating to competition law and the level playing field. The CACG reports in to the GARB.
 - The CACG reviews risks to compliance with obligations within developing markets and is the forum for discussion on particular challenges.
 - The CACG provides a forum to allow any emerging competition law or level playing field issues to be raised. See evidence item 5: *CACG Terms of Reference*.
 - The CACG provides the GARB with a regular update on the issues arising in relation to competition law and the level playing field. Information from these meetings is taken to Audit Committee if deemed necessary.

CIC (Capital Investment Committee) (Principal Management Committee)

- Is the principal management committee which reviews, authorises and approves capital expenditure
 - The CIC approves any expenditure required to support the development of new systems or property associated with the development of emerging markets.

QBR (Quarterly Business Review) (Principal Management Committee)

- Is the principal management committee which reviews the operational and financial performance of each part of the business.
 - The QBR provides a key route for escalation of any specific issues with our performance in relation to our performance in the existing or emerging markets.

A2.2 Risk Management

The CFO has executive responsibility for risk management and is supported in this role by the head of audit and risk and the corporate risk manager and his team. The GARB reviews the governance processes and the effectiveness and performance of these processes along with the identification of emerging trends and themes within and across the business. The work of the GARB then feeds into the information and assurance processes of the audit committee and into the board's assessment of risk exposures and the strategies to manage these risks.

Our approach to the governance and reporting of risk is in accordance with the UK Corporate Governance Code and incorporates reporting to the group board for every full and half year statutory accounting period. This enables the board to:

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- Determine the nature and extent of the principal risks it is willing to take in achieving its strategic objectives;
- Oversee the management of those risks and provide challenge to executive management where appropriate;
- Monitor risk management and internal control systems and review their effectiveness.

We anticipate and mitigate risks through an embedded risk management framework which includes:

- A consistent and reliable enterprise-wide risk management process;
- A governance and reporting structure which enables the board to oversee and direct the control of risk;
- Definition of risk appetite by the board with an overarching general risk appetite supplemented where appropriate by specific risk appetites for certain risks;
- An ISO 31000:2018 aligned assessment and mitigation process; and
- Policies, practical guidance and training programmes to enable our people to identify, quantify and manage risk effectively.

We use a forward-looking approach to take into account new and emerging areas of concern. Our risk identification and management activities are continuous and ongoing, with each functional area responsible for assessing, articulating and controlling relevant risks.

The risks within the process therefore evolve over time and include potential risks associated with new or existing markets. Risks relating to; bioresources competition, water resources competition, NAV markets, direct procurement (Manchester and Pennines resilience) and water trading are currently being managed and reviewed through this process. With previous risks including non-household retail competition having now materialised.

A2.3 Whistleblowing and the whistleblowing committee

In addition to the direct governance and risk management processes, the company operates a whistleblowing helpline and other support that provides a mechanisms and process by which employees can raise concerns.

Our people may report their concerns directly within UU, or via the external confidential whistleblowing company Safecall.

This process is highlighted within the competition training delivered as face to face or online training and is designed to provide additional safeguards to ensure that any issues related to new or emerging markets, would be highlighted and escalated to the Board.

The Fraud and Whistleblowing Committee meets on a quarterly basis (and on an ad hoc basis as required) and its membership comprises the General Counsel and Company Secretary, the Customer Services and People Director, the Director of Strategy and Regulation, the Commercial Director and the Head of Audit and Risk. The Committee reviews all reports of alleged wrongdoing and ensures that they are promptly and appropriately investigated by an independent senior manager. Anyone reporting legitimate concerns in good faith is protected from reprisals. A log of incidents and decisions is reported to Audit Committee and Board.

In addition the Company has a dedicated Competition Team, reporting into the Director of Strategy and Regulation, as well as the Legal department, which provides resources and support to the business in planning and reviewing work concerned with the development of markets.

Annex B: Questions relating to the Business Retail Market

General

B1. As the provider of wholesale services in the business retail market, what action do you take to understand the experiences of end customers in consuming these services?

(For example, concerning the ease and speed with which end customers may - including via their retailer - request and receive meter installation, meter repairs, data logging services, decisions on leakage allowances, non-return to sewer allowances, permissions and permits concerning water supply and trade effluent services, disconnection or change of tenancy notification).

We frequently and actively engage with all retailers through our regular service review meetings. A key part of this discussions is gaining insight from retailers into the impact of our activities and performance on the experience of their customers. The frequency of review meetings varies anywhere from monthly to annual, dependant on what the retailers would like.

In addition to the work we do with retailers, we are undertaking a targeted piece of customer research with business customers in the North West. This research is designed to build on to the business customer insight we gained through the PR19 process, the recent Ofwat state of the Market Report and the Ofwat/CCW Business Customer Insight Survey.

This new customer research will be concluded by the end of October and will allow us to gain a deeper understanding of where we, as a responsible wholesaler, can better support the development of the non-household market and deliver better outcomes for customers in the North West. See evidence item 6: *Business customer experience survey*, for list of survey questions.

The process involves a telephone survey of 250 non-household customers. We will focus on those customers with whom we have interacted either following a service request from retailers, or who have contacted us directly perhaps as part of an event or service issue.

MOSL CEO Sarah McMath has asked if we would share the findings from this customer research. We intend to do so and would be happy to share the findings more widely with all market participants.

Industry Governance

B2. Please outline and provide relevant evidence on the extent to which you monitor, contribute to and participate in the work of the Industry Panel (including relevant Committees and working groups).

We have subscribed to all notifications from MOSL in relation to industry change proposals and decisions.

We take our responsibility to actively engage in market improvements very seriously and are committed to review and submit responses to all industry change proposals and requests for information.

In addition we operate a process for monitoring regulator and other stakeholder publications and for agreeing points from these publications that we may want to react to or engage with. This process is supported by a system that tracks our responses to consultations and ensure that there is a wide awareness of these publications.

We are actively involved in the majority of formal industry working groups and are currently a member of the following groups:

- Market Performance Committee
- Trading Disputes Committee
- Trade Effluent committee
- Credit Terms working group
- MPOP long unread meter working group
- MPOP meter read validation working group
- Digital Strategy Committee

We have previously had representation on

- GDPR Committee
- Market Incident Management Plan Committee

We have previously submitted nominations, but been unsuccessful in obtaining a place on:

- MOSL Board
- Industry Panel
- MPOP vacancy working group

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B3. Please explain how, in making decisions about how to respond to relevant industry consultations on code change proposals, you balance or reconcile your commercial interests with those of the market as a whole, where possible, citing examples.

We always aim to act in the broader interests of the market when both proposing code changes and when responding to change consultations.

We have shown our support for market improvement by submitting more change proposals than any other wholesaler trading party. These changes are aimed at improving market data and making it easier for retailers to operate and for customer switching to be smoother. Our proposals have included improvements to CMOS functionality to support SPID pairing, improvements to new and partial SPID and meter read reporting.

We believe that our response to consultations are fair and objective. We endeavour to clearly highlight the costs and impact of implementation, the benefits to us as a trading party as well as a balanced view as to the overall benefits to the market.

For example – we supported the implementation of the following changes:

- **CPM018: Treatment of MPS/OPS Charges** – We agreed with the redistribution method suggested within the change proposal and suggested if charges could be used to enhance market functionality and benefit business customers we would strongly support the maximum utilisation of the charges. This recognised the need for further market development.
- **CPW060: Clarifying credit scores and ratings for the purposes of Unsecured Credit Allowances** - We welcomed the principle of an approach that avoids different reports being produced and reproduced frequently. We consider this approach would remove some ambiguity when managing unsecured credit.
- **MPOP: 2019/2020 Plan** - We agreed with the continuity from the 2018/19 plan and with MOSL's proposed market improvement objectives and new priority focus areas.
- **CPW049 and CPM012 - Operational Performance Standards Review** - We agreed with the introduction of charges for Operational Performance Standards as this helps to drive good performance by wholesalers and reduces the risk of customers experiencing delays.
- **CPW065 – Retailer Notifications** - We agreed that it would be beneficial for all stakeholders if retailers receive notifications, irrespective of them submitting a T103.R transaction, as this avoids the risk of retailers needing to manually key information provided within market notifications, which they may have otherwise missed if the T103.R transaction is not sent.
- **CPM015 and CPW071 - Panel Self Governance** - We support the concept of self-governance for changes where there are no regulatory implications as this accelerates the change process.

In the following cases we considered that the changes proposed would not deliver the intended outcome or that the overall cost of implementation outweighed the likely benefit:

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- **CPW062 – Household indicator flag** - We were initially in support of this change as it provides a retailer benefit. However once the costs to obtain and populate the required information were calculated we decided the costs outweighed the benefit.
- **CPW067 - Bulk Submission of Service Requests via MS Excel** - We agreed with the principle of retailers sending bulk requests, but consider that the proposed changes to the operational terms would not meet the intended goal. We also considered the lack of a specified file format and the impending bilateral changes as additional reasons why this change should not be considered at this time.
- **CPW069 – Right of retailer to appoint an accredited entity** - During the last 12 months, we have operated at 98.3% of meter exchange/repair tasks completed within SLA. This, and the performance of many other wholesalers, does not suggest such a market wide change is necessary.

As part of their work on the Market Performance Committee one of our employees has been instrumental in the introduction of charges for OPS from April 2019, chairing the OPS working group and successfully proposing the necessary changes to the market codes.

These changes have not only introduced charges for the OPS measures, but also allowed for publication of performance data, expanded the number of measures and provided additional clarity around true performance looking at cancellation and rejection. Support on activities like this show our commitment to highlight and drive improvements in wholesaler performance across the sector for the overall benefit of the market.

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B4. How have you developed your company's strategic approach to participation at the Industry Panel (including relevant Committees and working groups)? To what extent has it been discussed or approved by your Board? Please provide relevant evidence to support your response (such as Board papers).

We have been keen to engage in all industry working groups as we believe that this not only provides the opportunity to help improve the market, but it also allows us to gain great insight into the key market issues to support our aims of developing products and services that best meet the needs of retailers and customers.

Decisions to nominate employees for role are considered at different levels within the business dependant on the type of role. Nominations for the MOSL Board, Industry panel and some committees have been discussed at Executive level.

For the MOSL Board role that was considered in September 2019 we nominated Louise Beardmore, Customer Services and People Director, a member of the Executive team. On this occasion she was unsuccessful, however this demonstrates our willingness for senior staff to engage in the development and operation of Markets.

Wholesaler performance

B5. Have you been subject to an Initial Performance Rectification Plan (IPRP) at any point since they were initiated? If so, what measures did you take to understand the root causes for your underperformance, what activities did you undertake to address this and how has your performance changed since going on the IPRP?

We have been subject to an IPRP for MPS 3 - New connection notification.

We undertook a cross functional (Developer Services and Business Market Services) review of our end to end new connection process from the new connection application through to the registration of the SPIDs in the market. This work identified a number of gaps in our new connections process and these formed the basis of our improvement plan:

- Improvements to field reporting both for UUW contractors and self-lay providers to ensure timelier reporting of new connections made to our network. Our existing contract required field reporting within seven days, reflecting pre market requirements. We renegotiated an upgrade to this contract to require field reporting within two days reflecting market SLAs.
- Systems changes to improve the efficiency of flows of new connections data between existing UUW systems, reducing the need for manual checks and validation.
- Implementation of data governance controls to ensure the creation of reliable, accurate and complete data as early in the process as possible so that the data is accepted when presented to market.
- Focussed effort and resource to remove existing work backlog.

Between September 2018 and August 2019 we improved our performance from 31% to 90%.

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B6. Where an IPRP has been put in place for your company, has your Board discussed your IPRP? Please provide relevant extracts of Board papers that document any such discussions.

The IPRP in relation to the registration of new connections did not specifically go to the Board for discussion. The issues relating to meeting the SLA for MPS3 have been raised at Strategy Steering Group (SSG) as part of the wholesale market service quarterly update. Given the significant improvements to performance, shown within the response to question B5, it was not seen as necessary to escalate this particular performance issue to the Board as it was capable of being dealt with and managed on a timely basis by Executive management.

In the event that our position against the IPRP had been seen at serious risk then this would have been highlighted to the Board either as an individual item to the SSG as part of the operational update, or as part of the company's ongoing risk assessments through our risk assessment process.

The Director who oversaw the delivery of Wholesale Market Services received monthly updates on our progress against the IPRP. These monthly updates included details of OPS and MPS performance, which on a quarterly basis were provided to the Executive at SSG. See evidence item 2: *Quarterly update to SSG, Jan 19*, slides 6 – 7.

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B7. Please set out what safeguards and/or monitoring you have in place to monitor your Operational Performance Standards (OPS) performance for your associated retailer in relation to other retailers?

Our OPS performance remains strong. We were the best performing WaSC in 2018/19 and are in second place year to date 2019/20. Thus, overall our performance to all retailers is relatively strong.

We ensure consistency of approach to all of the cases we manage irrespective of who the retailer is by following documented policies, processes and systemised workflows. All staff are subject to training in level playing field awareness and their obligations in ensuring that no undue preference is shown to any retailer or customer.

All OPS tasks are reviewed monthly prior to submission and the root cause of all failures is identified, documented and investigated to help prevent a repeat. We identify failures down to individual agent level so that coaching and feedback can be provided.

Each month a pack of information is provided to the Customer Services Director (previously to the Director of Energy and Market Services) and Network Delivery Director detailing the reason for any failures and the steps that are being taken to address those failures.

We have been consistently at or near the top of OPS performance since market opening. This is in part due to the tight monitoring of our performance on OPS.

Extract from Monthly OPS performance pack. [redacted]

[redacted]

We track overall OPS performance and this can be broken down by retailer as shown in the table below.

Our performance in relation to each retailer, including percentage compliance, details of failures, rejection rates etc. are shared proactively with each retailer as part of our regular service review meetings.

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We report on root cause and action taken to prevent repeat occurrences. We have received positive feedback about the content and quality of our service review packs. See evidence item 7: *Example: retailer service review pack*, slides 6-7. For example, a comment from the recent RWG pilot RMEEx survey stated:

“Very well managed Account Management meetings with lots of data provided. Very good at highlighting upcoming improvements to service.”

[X]

[X]

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8. Please set out what processes you have in place to assure yourself that OPS performance data is accurate and valid before it is submitted to MOSL.

There are a number of measures in place to provide assurance that the OPS performance data is accurate and valid before it is provided to MOSL. These measures have been updated to reflect the changes to OPS reporting that came into effect in April 2019 and are summarised in the list below:

- All OPS processes and SLAs are documented in a reporting guide
- All workflows are embedded in our case management system, Jira
- Jira data is extracted into our Exasol database and automated scripts are run against the database in accordance with the OPS SLAs / methodologies to show passes / failures. The reports have been developed by our Settlement and Data Manager and peer reviewed to ensure accuracy
- As part of BAU our team of Quality Assurance Coaches undertake quality checks on all agents
- Prior to submission each month:
 - Named process owners review and validate all tasks for which they are responsible
 - The compliance manager undertakes a review of a sample of each case type
 - An OPS review meeting is held in which the Performance Analyst, Head of Business Market Services and Market Operations Manager review the data and raise questions / challenges with each of the process owners. These OPS Data Reviews are held each month, see details of meetings below.

| | | | | |
|--|-----------------|--|----------------------|----------------------|
| | OPS Data Review | Lingley, Haweswater Ground Flr, Meeting Rm 2 (4) | Fri 06/03/2020 09:30 | Fri 06/03/2020 13:30 |
| | OPS Data Review | Lingley, Haweswater Ground Flr, Meeting Rm 2 (4) | Fri 07/02/2020 09:30 | Fri 07/02/2020 13:30 |
| | OPS Data Review | Lingley, Haweswater Ground Flr, Meeting Rm 2 (4) | Wed 08/01/2020 09:30 | Wed 08/01/2020 13:30 |
| | OPS Data Review | Lingley, Haweswater Ground Flr, Meeting Rm 2 (4) | Fri 08/11/2019 09:30 | Fri 08/11/2019 13:30 |
| | OPS Data Review | Lingley, Haweswater Ground Flr, Meeting Rm 2 (4) | Mon 07/10/2019 09:30 | Mon 07/10/2019 13:30 |
| | OPS Data Review | Lingley, Haweswater Ground Flr, Meeting Rm 2 (4) | Fri 07/06/2019 09:30 | Fri 07/06/2019 13:30 |
| | OPS Data Review | Lingley, Haweswater Ground Flr, Meeting Rm 2 (4) | Thu 09/05/2019 09:30 | Thu 09/05/2019 13:30 |
| | OPS Data Review | Lingley, Haweswater Ground Flr, Meeting Rm 2 (4) | Fri 08/03/2019 09:30 | Fri 08/03/2019 13:00 |
| | OPS Data Review | Lingley, Haweswater Ground Flr, Meeting Rm 2 (4) | Fri 08/02/2019 09:30 | Fri 08/02/2019 13:00 |
| | OPS Data Review | Lingley, Haweswater Ground Flr, Meeting Rm 2 (4) | Tue 08/01/2019 09:30 | Tue 08/01/2019 13:00 |
| | OPS Data Review | Lingley, Haweswater Ground Flr, Meeting Rm 2 (4) | Mon 10/12/2018 09:30 | Mon 10/12/2018 13:00 |
| | OPS Data Review | Lingley, Haweswater Ground Flr, Meeting Rm 2 (4) | Fri 09/11/2018 09:30 | Fri 09/11/2018 13:00 |
| | OPS Data Review | Lingley, Haweswater Ground Flr, Meeting Rm 2 (4) | Fri 06/12/2019 09:30 | Fri 06/12/2019 13:30 |
| | OPS Data Review | Lingley, Haweswater Ground Flr, Meeting Rm 2 (4) | Fri 06/09/2019 09:30 | Fri 06/09/2019 13:30 |
| | OPS Data Review | Lingley, Haweswater Ground Flr, Meeting Rm 2 (4) | Thu 08/08/2019 09:30 | Thu 08/08/2019 13:30 |
| | OPS Data Review | Lingley, Haweswater Ground Flr, Meeting Rm 2 (4) | Fri 05/07/2019 09:30 | Fri 05/07/2019 13:30 |

- The Performance Analyst completes submission template by copying and pasting from the standardised report. Submission is peer checked prior to submission.

United Utilities response to Ofwat's letter 16 September 2019

We experienced some issues with OPS reporting in April, May and June this year following the introduction of the new reporting methodology. For a small number of measures our automated calculations were unable to fully reflect the changes. This was due to the tight implementation timescales for the changes due to panel / authority approval timescales leaving little time for testing of the system, or reporting functionality prior to the implementation date. These concerns were flagged to and discussed with our MOSL Portfolio Manager prior to 1 April 2019. We have now had the time to further assure our reporting mechanisms and are confident in their reliability.

It is also worth noting that the effectiveness of these processes and the accuracy of the submission will form a substantial element of the MOSL market audit being undertaken by PwC over the course of this year. We expect that the improvements described above will reflect well in the outputs of the PwC audit.

Data quality

B9. Please explain any collaborative work you have initiated with retailers to improve the quality of market data in relation to: long unread meters; faulty meters; and vacancy.

Long Unread and Faulty meters

We have put substantial effort into addressing concerns that the X and Y coordinate meter data was poor. We improved the X and Y coordinate data of over 34,000 meters between July and September 2018, with just under 800 meters remaining in the market without confirmed accurate X and Y coordinate data. We are continuing to address this issue and improve that data.

We have worked with a number of retailers to investigate those long unread meters where the meter readers' 'skip code' state unable to locate meter or insufficient address. In order to make this process as efficient as possible we have circumvented the normal bi-laterals process and accepted requests in bulk. Our response to this work includes provision of photos to show where the meter was installed, updated X and Y co-ordinates and improved location details.

Some of our commercial meters are AMR enabled and we collect readings from some of these meters via units attached to bin lorries, which pick up readings as they pass the meter. We refer to this as a passive AMR read and have been sharing this data with retailers on a daily basis since March 2019. We have offered this service to all retailers and are currently sending out data to 11 retailers each day. This service is currently provided free of charge, as it provides a benefit not just to retailers, but to the wider market potentially helping address issues with long unread meters, identifying leakage and vacancy issues.

Recognising the importance of obtaining transfer reads when a supply point is transferring, if we have a passive AMR read within the transfer read window then we share this information with the retailer. We began to do this in July 2019, and provide this on a daily basis.

Retailers in the North West have not been identifying significant levels of wholesaler asset or data problems as being the driver of long unread meters and we get relatively few requests relating to wholesaler asset or data problems as a cause of long unread meters. However we have recently received an increased volume of wholesaler 'skip codes' from the largest retailer, identifying a number of differing reasons for not being able to obtain a meter reading. These include categories such as meter damaged, meter inaccessible and no access. We have committed to a joint project to resolve these issues and to understand any other issues which may be preventing the retailer from obtaining accurate and regular reads. We will be accepting this work in bulk and therefore will not require the retailer to raise individual bi-lateral requests for each item.

We are also working with other trading parties to help identify other causes of the long unread issue, having representation on two related MOSL working groups seeking to address long unread meters, and understand meter read rejections.

United Utilities response to Ofwat's letter 16 September 2019

Vacancy

Like many wholesalers we have seen the number of vacant premises in our area increase significantly since the opening of the market. This is in part why we proposed a vacancy ODI in PR19 and why we are introducing a vacancy incentive scheme.

In order to understand the scale of the incorrectly flagged premises we commissioned a project with a third party to undertake a trial on all supply points within the SK postcode, which contained 22,000 SPIDs, of which 5,520 were marked as vacant. This was designed to obtain a view of the number of SPIDs incorrectly identified as vacant, to support efforts to address vacancy in the wider market and help to better understand the issues for retailers in the North West. Where the third party identified an occupier within a "vacant SPID" we shared the results with the relevant retailers.

We have been performing approximately 20 reviews of premises per month for the last eight months, where the occupancy status has been changed to vacant within the previous month, and where our desktop study identifies the occupier; these results are shared with the retailer.

We keep a regular check on vacant premises with consumption based on actual reads and highlight these to the impacted retailers. As part of our regular service reviews with retailers we share a pack highlighting the latest volumes of long unread meters and vacancy numbers, see evidence item 7: *Example: Retailer service review pack*; slides 8 - 12. Details covered in the pack includes number of days since the last read and the location of the meters – internal versus external. For vacant premises we explore the volumes of vacant SPIDs split between unmeasured, measured without consumption and measured with consumption and show estimated missing revenue and detail of the top 20 consuming sites.

In the last month we have focused attention on identifying premises in the market that have been demolished. We have agreement with one retailer for us to de-register up to 50 of these a week outside of the normal process as long as the de-registration does not impact on market performance, so a SPID without a meter can be processed without the need for a bi-lateral form to be completed.

We proposed an ODI on vacancy in our PR19 submission and are choosing to introduce a vacancy incentive scheme that we believe should help address the vacancy issues that form part of the most recent MPOP. Alongside our vacancy incentive scheme we are supporting work to understand vacancy and efforts to identify and bring into charge occupied premises marked as vacant. We are leading a working group looking to bring standardisation to vacancy incentives schemes, however most companies are not planning to provide an incentive and few have an ODI. Given the rising levels of vacancy we believe that this incentive scheme needs to be both standardised and introduced without delay.

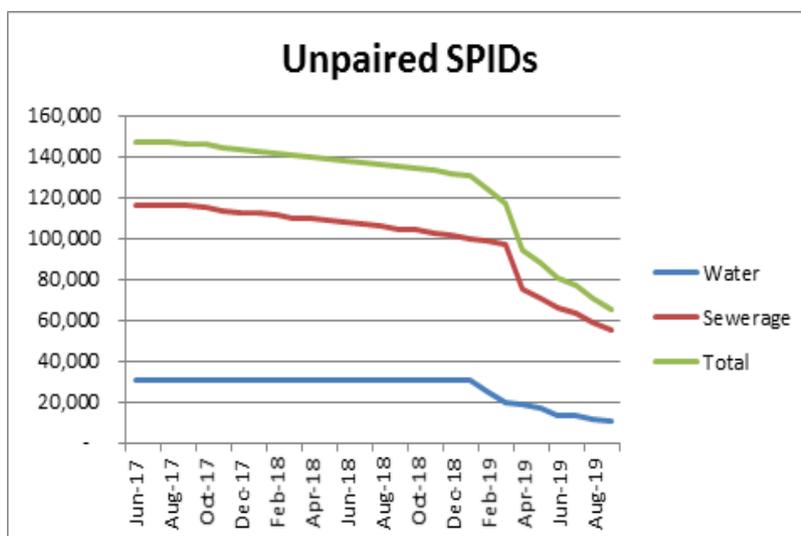
B10. Please describe any processes you have in place to improve the quality or coverage of data in CMOS that relates to your activities and responsibilities as a wholesaler (for example, to ensure meter location data is complete and accurate). How long have any such processes been in place?

During shadow operations we developed a report to check the accuracy of our SPID set up which we called the tariff completeness report, see evidence item 8: *Tariff completeness report*. This report is still being run and highlights inconsistencies between the set-up of the SPID and the tariffs assigned to the SPID for example, a measured SPID being charged on an unmeasured RV tariff. The data in this report is refreshed weekly and inconsistencies are passed back to the agent who worked on the case. At the opening of the market we were reporting over 25,000 fails, the latest report shows this has reduced to under 1,300 despite adding in over 25 additional accuracy checks.

In addition to the tariff completeness report, in June 2017, we created a data quality dashboard, see evidence item 9: *Data quality dashboard*, also updated every week. This runs checks on consistency, comparing CMOS data versus our internal database, completeness, validity and accuracy in the form of our tariff completeness report, all of which allows us to monitor our data quality and prioritise remedial activity. We have achieved significant reductions in rule failures since the introduction of the dashboard as it has enabled us to identify specific issues within the data and assign resource to cleanse the data. It has helped to embed a culture of data ownership within the business and we now see only a very small number of weekly rule fails which are sent out to the agents on a weekly basis to be fixed.

In recent weeks we have developed some new SPID accuracy rules to ensure that all new connections and gap sites are correctly set up in the market with any anomalies now being passed back to the BAU agents. These new rules allow us to identify missing data or an incorrect setup before it impacts on settlement.

An area of focus for us is unpaired SPIDs. We initially had over 115,000 unpaired sewerage SPIDs within the market, but by the end of Aug 2019 this had reduced to 59,000, many of them legitimately unpaired. For water the number of unpaired SPIDs has been reduced from 30,000 to 12,000.



United Utilities response to Ofwat's letter 16 September 2019

To date we have met challenging MOSL MPOP targets for data improvement and continue to invest heavily in data improvements. We are currently running an improvement programme focusing on 6 work streams:

- Long unread meters
- Vacancy
- Unpaired SPIDs
- Complaints
- Gap sites
- Data Cleanse – focussing on issues not covered in any of the other workstreams or requests from Retailers, Ofwat or MOSL.

Further, in recent weeks we have developed some new SPID accuracy rules to ensure that all new connections and gap sites are correctly set up in the market with any anomalies now being passed back to the BAU agents.

United Utilities response to Ofwat's letter 16 September 2019

B11. Please describe any processes you have in place to take into account information received from retailers or end customers concerning incomplete or inaccurate data held in your systems or in CMOS. (For example this could relate to: meter location; customer or retailer meter readings; change of tenancy; or disconnection). Please also set out the process that a retailer would need to follow in order to inform you about incomplete or inaccurate data and your process and timetable for responding to this.

Any information received on a bi-lateral form which contains information about incomplete or inaccurate data would be updated in the market wherever the data item is a wholesaler responsibility.

If a retailer has information relating to a large number of premises then we would be prepared to accept this information in bulk as we have done with requests to investigate long unread meters. There are certain data fields (e.g. D3019) which accompany the initial registration of the meter that can only be updated by the retailer.

Change of tenancy and the majority of meter readings are the responsibility of the retailer. However if a change of tenancy indicated the property was no longer eligible for the non-household market, or information obtained attempting to read a meter indicated a problem with the meter, or in locating the meter or premises then we would of course act upon this information.

If the query was raised via a bilateral form then we would respond as quickly as possible with the market SLA's being our worst case response time. Receiving information in bulk will be responded to as quickly as practicable dependant on the volumes involved, but with a commitment to keep the retailer regularly updated on progress.

Wholesaler retailer interactions

B12. Please outline and provide evidence on the extent to which you monitor and contribute to the work of the Retailer Wholesaler Group (RWG) or other similar discussion and action groups. Have you fully implemented published RWG guidance? If not, please explain why.

Monitoring and contributing to RWG

We have subscribed to all notifications from MOSL in relation to industry change proposals and decisions. In addition we have a process monitoring regulator and other stakeholder’s publications that is designed to identify any points that we may want to react to or engage with.

In November 2019 UU are hosting the RWG face to face meeting in Manchester. This meeting provides the platform for updates on all subgroup activities and the opportunity to define future priorities.

We currently have representatives on nine Retailer-Wholesaler groups which allow us to effectively monitor developments.

| RWG meeting | UU attendee (Job title) |
|---------------------------------------|-------------------------------------|
| Eligibility | Market Services Policy Manager |
| Policies | Market Services Policy Manager |
| Disconnection | Retailer Relationship Manager |
| Bilaterals | Wholesale Market Operations Manager |
| Vacancy | Settlements and Data Manager |
| Planned and Unplanned Events | Retailer Relationship Manager |
| Meter Reading Standards | Retailer Relationship Manager |
| Complaints | Market Services Policy Manager |
| Gap Site and Vacancy Incentive Scheme | Head of Market Services (Chair) |

We were one of only two companies to commit to incentivising retailers to identify gap sites and voids. To help deliver this in a way which delivers the best possible outcomes for retailers and customers we took the initiative to mobilise the recently established RWG group looking to develop industry standard gap site and vacancy incentive schemes. This approach will provide a degree of standardisation, making engagement with gap site and vacancy incentive schemes easier for retailers. We believe that it is essential that there is standardisation of incentive schemes for vacancy and gap sites and are actively working to support this.

Implementation of RWG guidance

It became clear soon after market opening that the lack of standardised policies across the industry created additional complexity for retailers, which in turn contributes to inefficiencies in terms of time and costs to their business.

We have fully supported efforts made by the RWG to develop and publish best practice guidance, and have taken an active part in all groups to date. We are keen to adopt industry good practice wherever practicable and have made a number of policy changes in order to align to the RWG Good Practice guides; for example we have updated our business customer leak allowance policy to align to good practice in a number of areas including the time taken to repair a leak and the period of the allowance payment.

| RWG guidance | Approach to implementing the guidance |
|---|---|
| <p>Burst allowance guidance</p> | <p>We have fully adopted the RWG burst allowance guidance.</p> |
| <p>Best practice guide - Return to sewer allowance</p> | <p>For the guidance document published on 1 October 2019 “return to sewer allowances” – we already follow a number of the best practice guidelines, or are looking to align to most elements as soon as is practicable.</p> <p>We have carried out an initial assessment of how we align to the return to sewer allowance guidelines and can confirm we meet best practice for a number of aspects. We are currently considering how we can further align to the guidance.</p> <p>Our processes do not currently align with the rainwater harvesting element of this guidance. We are running a pilot to inform future charging developments relating to what an appropriate allowance would be where a customer has a rain water harvesting scheme. This plot also has an impact on surface water charging, and we want to align charges consistently.</p> |

| RWG guidance | Approach to implementing the guidance |
|--|---|
| <p>Best practice guide for data logging</p> | <p>For the guidance documents published on 1 October 2019 “data logging policy” we already follow a number of the best practice guidelines, or are looking to align to most elements as soon as is practicable.</p> <p>We have however, identified a number of changes that we plan to make prior of the start of the next charging year to move closer to full alignment to the guidance.</p> <ul style="list-style-type: none"> • Where we receive a request to log a meter that is unable to be logged and over 15 years old, we will exchange meters 40mm and below free of charge. Our current policy was to charge for this exchange. • We are changing our processes to allow applications to be made to us directly to fit a data logger; currently we only accept applications from retailers. • In addition, we are setting an SLA of 5 working days to respond to these non-market requests. <p>The guidance document suggests meters of any size should be exchanged, if not able to be logged. The financial impact of doing this needs to be better understood before we could fully adopt this policy for meters of all sizes. Current UU metering policy would not change a working meter at this age, and these costs have not been factored into business plans.</p> <p>The guidance requires a data logger to be reconnected after a meter exchange, or work resulting in a third party data logging unit to be disconnected. Our meter technicians are trained to replace/fit the equipment we use and may not be familiar with some kit used by third parties. We will commit to a best endeavours approach in terms of refitting third party equipment where our technicians believe they are trained to do so, rather than risk damaging third party equipment if unsure. We believe this to be a reasonable approach.</p> <p>Informing third parties when we plan to do work on a meter is another aspect of the guidance we are changing our current policy to partially address. We will pass this information on to the customer to let them know, and they can in turn inform their service provider.</p> <p>Some of the changes we will be making to adopt the data logging guidance require changes to be made to our current processes and systems. For example, the change to allow third parties, or customers to apply to us direct to connect to a meter, where a splitter needs to be fitted requires changes to be made to our system to allow invoices to be raised for third parties. Currently the system is only set up to bill trading parties. This change has been scheduled along with other system updates for January 2020.</p> |

Additional points on the standardisation of polices

Framework for developing guidelines

We believe that the work carried out to date by the RWG under its initial remit, has been very beneficial to the market as a whole. By developing these guides as best practice guides rather than as industry standards, work has been able to progress at a much greater pace than is likely to have been the case if these guidance documents were defined as industry standards.

The original remit when developing these guidance documents was to identify good practice with a view that companies would adopt where possible, or adopt some elements and move towards other elements over a period of time. The terms of reference and governance of these groups were not the same as they would have been if it was known at the outset that the output of these had the potential to be made mandatory.

Looking at the RWG leak allowances good practice guide as an example, UU was able to comply with the majority of elements of this guidance and actually exceeded or offered enhanced terms in two areas.

One element we were not able to adopt straight away was the recommendation to allow the customer 30 days to repair the leak once they became aware of it. This was at odds with our leakage code of practice in which we allow two weeks. We do not feel it would be appropriate to allow business customers to have more time to fix a leak than a domestic customer. In order to make sure the code is aligned for both customer types, we had to consider whether it was appropriate to revise our policy across our customer base. Further, we had some initial concerns that being seen to relax our leakage code of practice in this way would be contrary to the focus our business is placing on driving down leakage. After due consideration, we now propose to align to the guidance, changing our leakage code of practice.

Additional consideration in relation to RWG guidance

The costs of adopting of all elements of all best practice guidelines could be significant, as could be the impacts on customers. With these costs in mind if guidance were to become mandatory greater scrutiny and consideration of costs would be necessary, as would a full cost benefit analysis. There would also need to be a more substantial change control process that took into consideration of the impact of any changes. For these reasons we believe that having the guidance as voluntary gives the flexibility to better deliver for stakeholders.

B13. What actions have you undertaken to support the development and implementation of a bi-laterals solution? Has your Board discussed your approach to the bi-laterals solution? Please provide relevant extracts of Board papers that document any such discussions.

The bi-lateral solution has been discussed as part of the monthly market performance meetings, multiple sessions with the UU IT architects and as part of the IT planning process. At a formal policy level, this has been discussed at the company's Political and Regulatory Steering Group (P&R Group) which is a Principle Management Committee of the Board.

A paper was taken to the 7 December 2018 P&R group to provide information and gain agreement on the form of response being provided to the Ofwat consultation looking at "Strengthening wholesaler performance and service in the business retail market", which highlighted a desire to create a central bilateral portal. See evidence item 4: *P&R group paper – response to Ofwat consultation: Strengthening wholesaler performance in the NHH retail market*.

The following response was agreed at P&R Group. *"We continue to support the development of a centralised portal that delivers an efficient solutions for both retailers and wholesalers interactions. However, the development of this system must consider all the associated costs of implementation for all market participants, including wholesalers, in order to arrive at the best long term solution for the market. Agreement on the form a centralised bilateral portal must be subject to wide scrutiny and deliver demonstrable value for money for customers"*.

We have also provided a wholesaler representative to the Digital Strategy Committee which has allowed us to be directly involved in developing the need and strategy for the bilateral solution. We have responded to all requests for information from the DSC, we held a call with the chair of the DSC to discuss and explore the proposed solution in December 2018 and have been actively involved in all market level discussions.

In our response to the January 2019 DSC request for information we expressed our support for a central solution stating that: *"We support greater standardisation regarding the bilateral interactions of retailers and wholesalers. We believe that this will help to reduce friction and provide consistency at the retail-wholesale interface which will help to reduce costs, improve customer experience and provide retailers with greater opportunity to pass on savings to customers. The overall benefit is of course dependent on the implementation and maintenance costs of the solution adopted.*

We believe that the development of a central portal for the submission of market forms by retailers would provide a cost effective solution to the problem that retailers face in navigating through multiple wholesaler portals or connecting with multiple API interfaces. However, it is important that trading party costs are fully considered as part of the cost-benefit assessment."

The MOSL Transformation Director recently came to our head office for a Bilaterals Briefing Session where he talked through the plan and timescales for developing the solution. We look forward to working with the MOSL team and industry steering groups going forwards.

Internally, project funding was approved at Capital Investment Committee (CIC) in February 2019 for implementation of / integration into the market bilateral solution. This funding has recently been deferred until the start of AMP 7 given the timescales communicated by MOSL. We have also largely ceased further investment in our own portal to avoid abortive costs.

United Utilities response to Ofwat's letter 16 September 2019

B14. Wholesaler policies: Please set out (and where appropriate provide relevant supporting evidence):

14 a) what action you take to help ensure your wholesaler policies (including:

14 a i) the charges /charging structure;

Our wholesale charges are published in line with the Wholesale charging rules issued by the Ofwat under sections 66E and 117I of the Water Industry Act 1991.

We notify all retailers when we publish any documentation as part of the charges scheme publication process including copies of our statements of significant changes. We also welcome retailers to meet with us to discuss any proposed changes and the impact on their businesses. Content available at the following link was updated and sent to retailers on 1 July 2019, <https://www.unitedutilities.com/wholesale-services/wholesale-charges/>.

We aim to provide as much advance notice as would reasonably be required by retailers to make any necessary changes to accommodate changes to charges. For example, we will be introducing charges for water supplied to premises marked as vacant from 1 April 2020. Recognising the impact of this change on retailers we notified them of our intent in November 2018, 17 months in advance, see evidence item 10: *Notice to retailers: vacancy charging*.

We have also undertaken a number of retailer education sessions where we have provided insight and information on the more complex policy and charging areas. These are available to all retailers, with feedback being very positive. Sessions included:

- Policy session - [redacted] [redacted]
- TE sessions – Market wide
- TE session – [redacted] [redacted]
- Policy session – [redacted] [redacted]
- Complaints root cause and best practise session - [redacted] [redacted]

We are also developing e-learning modules which will provide an overview of our policies in the following areas:

- Leakage Allowances
- Surface Water Connectivity (Full and Partial Claims)
- Sewerage Connectivity
- Non-Return to Sewer
- Allowances (general)
- Site Area
- Concessionary Scheme
- Supply Point
- Change of Use
- Supply Check
- Metering Requests

We have also published a short summary of our key charging policy rules as a quick reference for retailers, <https://www.unitedutilities.com/adjustments>.

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14 a ii) Any SLAs or KPIs; associated with the provision of wholesaler services to retailers) are readily accessible and understood by all relevant retailers?

We adhere to the market codes SLAs when supplying services to retailers. The one exception to this is that we have set an internal target of five business days to respond to complaints (as opposed to the 8 business day code requirement) as we believe this better aligns to retailer and customer expectations.

There are links on the wholesale website in relation to appropriate charging policy such as allowances applied and we provided in internal FAQ document to support any queries the wholesale market services team may get

See evidence item 11: *Indicative charges 2020-21 FAQs*. This is a recent example of documentation provided to support the publication of the indicative charges.

14 b) What, if any, unilateral action you have taken since 1st April 2017 to simplify or otherwise refine your wholesaler policies to the benefit of retailers?

We are keen to align to industry good practice wherever possible and have made changes to policies taking into account the impact on our wider customer base in terms of cost of implementation, association with household policies and tariff increases for other customers, for example if we increase allowances in a particular policy area.

In addition to the changes summarised in response to Q12 above we have made the following policy changes to benefit retailers:

- We have changed our position on pre-market amendments when the fault was deemed to be retail. We now make the allowance via the retailer and do not refer the customer back to the retailer for them to arrange any allowance – Introduced April 2018
- We now allow surface water claims to date back up to 6 years, instead of start of charging year – Introduced April 2017
- We have switched away from “backdating to the start of charging year” for allowances. Instead, we now backdate 6 months to ensure a consistent approach for all customers regardless of when they apply. This also avoids distortionary incentives and retailer delay issues at year end – Introduced April 2018
- Gap Sites and Missing Service Components are charged from the date of market update unless there is evidence of and illegal connection or deliberate delays or concealment from the customer. Again, this is a change from previous policy whereby we would have backdated the majority of these to the start of the charging year – Introduced April 2017
- Currently we only make an allowance for foul charges following a leak, from 1 November 2019 we will give an allowance for both water and foul charges. This move support customers in limiting the potential cost shock associated with a leak.

In addition to these changes we have made a number of changes, detailed within our answer to question 12, following changes to align to the Good Practice Guides published by the RWG.

Once we have completed reviewing the differences between our policies and the recently published RWG guidance we will consider what further changes should be made to align our policies to the recently published guidance.

United Utilities response to Ofwat's letter 16 September 2019

14 c) What - if any - changes have you made since 1st April 2017 to the services you provide, the charges / charging structure for these, and/or any associated SLAs or KPIs associated with the provision of these services? If you made changes, what were the reasons for these changes?

We have introduced the following services since market opening to support retailers in delivering better outcomes for customers:

- Network logger information is provided where available to support retailers in providing water efficiency services and advice to customers. There is a small charge associated with this service to cover cost of changing system access / permissions to a new retailer
- Provision of passive AMR meter read data. We now provide on a daily basis for those retailers who wish it any data we receive through our passive AMR network. We currently provide this information free of charge to support long-unread meter improvements, recognising the challenge that the market faces in this area.
- We have improved our planned works notifications to identify specific supply points and retailers to help retailers to more easily identify where their customers may be impacted by planned activity that we are undertaking on our network. This service is not chargeable and is an enhancement on basic code requirements
- We have created a settlement query process to avoid the cost of MOSL settlement re-runs. This service is not chargeable and is an enhancement on basic code requirements
- We now support the use of Accredited Entities for temporary disconnection. This provides retailers choice and flexibility in how they manage their debt and collection activity.
- We proactively review customers on a large user tariff to identify if they may be on the wrong tariff and could benefit from being on a different tariff in future. To date we have informed five different retailers of 36 supply points that, given their usage, would be better off switching to a large user tariff.

United Utilities response to Ofwat's letter 16 September 2019

B15. Charging: Please set out (and where appropriate provide relevant supporting evidence):

15 a) what - if any - unilateral actions have you taken since 1st April 2017 to simplify your wholesaler tariff structure with a view to facilitating retailers' ability to make price and service offers to end customers.

We have taken action to align a number of our charges and charging policies with common practice within the industry. Examples include:

- “domestic allowance” assumptions that are applied to trade effluent customers – these have been revised in line with common practice within the industry
- trade effluent minimum charges have been amended to better align to market settlement and improve efficiency for retailers
- we are amending leakage allowance policy to reflect best practice in the industry
- we are taking a leading role in the development of an industry “gap site” incentive scheme

Whilst we are keen to support retailers in this way, in many cases it will not be feasible to take unilateral action. For example, in many areas there is no generally accepted “best practice” approach for companies to adopt, or to transition towards.

We have engaged with retailers and CCW to better understand what is considered to be best practice and to understand which areas are particularly causing issues for retailers. Our view is that it is most appropriate for the market (retailers) to identify what standardisation they want to see.

Taking unilateral action will not guarantee comparability or standardisation. For example one wholesaler might look to simplify its charging structure by removing meter standing charges. However, this does not guarantee other wholesalers would change this in the same way.

It is also important to note that standardisation may cause undesirable “incidence effects” on customer charges (which may also cause conflicts with the charging rules) and therefore any changes need to be considered carefully. Consideration needs to be given to the impact on end user customers that could result from any proposed standardisation - this will likely make it difficult to achieve full industry-wide standardisation of charging structures and/or mean that standardisation may take a long time to phase in and achieve.

We are however, taking appropriate action, informed by engagement with relevant stakeholders to, where feasible, improve the consistency of our charging arrangements with other companies.

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15 b) What is your expected charging policy in respect of vacant sites and premises from 1 April 2020? How, if at all, has this changed since:

15 b i) 1 April 2017; and

15 b ii) prior to 1 April 2017?

Prior to 1 April 2017 if a property was marked as vacant on our system no charges were levied to that premises.

If a property was marked as vacant on our system, but there was evidence of consumption then we would have followed the appropriate property management process to identify the owner of the property, and then if appropriate amend the status to occupied. The premises would then be liable for the charges in line with our published charges scheme.

The following statement is taken from our 2016/17 charges scheme *"If premises with a meter are unoccupied and unfurnished, we will not charge for water services unless consumption is recorded on the meter. However if the premises are unoccupied and furnished then full charges will be payable"* (section 2.1 page 14 Business and non-household charges scheme 2016/17).

We do not currently charge for any services provided to premises that are marked as vacant in the central market system.

Our investigations to date tend to indicate that a proportion of premises marked as vacant may, however, be occupied. From 1 April 2020, in the interest of applying charges comprehensively for all customers, we will levy wholesale charges for all measured water and sewerage volumetric charges irrespective of whether the premises is marked as occupied or vacant in the market.

We notified retailers of our intention to introduce this change in November 2018 in order to provide reasonable time for retailers to improve the management of occupied vacant premises.

We will also be introducing a vacancy incentive scheme to incentivise better management of vacancy.

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B16. How do you consult or engage with retailers on the following issues (where appropriate provide relevant supporting evidence):

16 a) *Measuring or gauging the quality of service you provide to retailers? What actions have you taken here?*

We frequently and actively engage with all retailers through our regular service review meetings. A key part of these discussions is gaining insight from retailers into the impact of our activities and performance on the experience of their customers.

We have also shared our improvement strategy for 2019/20, face to face and in detail with all retailers who have agreed to meet with us, and requested feedback on whether a) we have identified the correct customer outcomes to target, and b) the activities that we are undertaking are appropriate and will add value.

The feedback from retailers has been positive and was referenced in recent RME pilot results. (See evidence item 7: *Example: retailer service review pack*, for details of the improvement strategy for 2019/20, slides 16-20).

We also have a very active relationship management team which regularly asks retailers how we can improve and provide a better service, including asking what others are doing that works well and what we may be doing that causes inefficiency or frustration. We review the root cause of all OPS failures with retailers and provide case specific feedback on action taken to prevent a repeat. Insight from retailers is shared with the business leads within UU on a monthly basis to ensure awareness and ownership of resolution. The conclusions of this analysis are shared with retailers through service reviews, see evidence item 7: *Example: retailer service review pack*, slide 5-6.

Key business leads also join the service review meetings / calls to provide insight or to discuss specific operational areas such as settlement and data, metering and trade effluent.

Some positive feedback from retailers from the recent RME survey is set out below:

- *“Very proactive and pragmatic approach”*
- *“UU also very helpful with provision of meter reads that they have obtained and shared with us”*
- *“Data improvement activities are well communicated and record tidy up at switching is of benefit”*
- *“Positive engagement. Easy to do business with”*
- *“Very well managed Account Management meetings with lots of data provided”*
- *“Pragmatic solutions to settlement issues and very knowledgeable staff”*

There were also some less positive feedback comments from the recent RME survey:

- *“Submission of the Bi Laterals via the portal fails at the ‘I am a Robot stage”*
- *“No ‘push’ notification for any Planned works - Requires log onto their portal and then postcode search to establish if we have any customers in that area”.*

This feedback points to issues within our bilateral portal. We have recently taken the decision not to pursue further investment in our bilateral portal (which may have addressed such issues) as the new central bilateral portal will supersede our portal and any investment would be wasted.

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16 b) Maintaining and improving your working relationship with retailers (e.g. do you host retailer engagement days, portfolio meetings, onboarding processes for new entrant retailers etc.)?

We believe there is good evidence that we provide a very high level of engagement with retailers and we pride ourselves on this approach. We engage early, looking to provide new retailers with all the information they need and offer them the potential to engage directly with us through our on-boarding process. This includes providing copies of our alternative eligible credit support offerings.

Once on board, new retailers are assigned a named relationship manager to provide regular face to face service review meetings where wanted. Alongside this we host regular operational calls and complaints calls, when needed.

We have also provided targeted support and training for retailers where specific issues have arisen. For example, recognising trade effluent as a complex area that some retailers were finding difficult to understand, we independently arranged and hosted a retailer engagement session, attended by delegates from nine retailers, covering trade effluent control and legislation, sampling and data analysis, trade effluent settlement and providing a tour of a wastewater treatment facility. We have also provided education sessions, for example on meter data, see evidence item 12: *Meter Data Education Slides*, and site area, see evidence item 13: *Site Area Education Slides*.

Following the success of the first trade effluent retailer engagement session we have subsequently held a further session for retailers unable to attend the first session. We also developed and presented training materials for a MOSL hosted retailer training session in December 2018, these slides are now available on the MOSL website.

In addition we have attended tripartite meetings with retailers and business customers to assist in the resolution of trade effluent related issues. We also regularly engage with MOSL looking to help clarify trade effluent questions and queries raised.

16 c) Understanding causes for, and improving levels of rejected, deferred or late OPS tasks?

We delivered strong OPS performance in 2018/19 and remain the second best performing WaSC in 2019/20. Our Business Market Services Team review all failed cases to identify the root cause and report to the Customer Services and People Director monthly as to the action taken to prevent a repeat.

All failures, rejections and deferrals are detailed in our retailer service review packs, see evidence item 7: *Example: retailer service review pack*, slides 6-7, and discussed with retailers. We explore the retailers experience and provide feedback on any action that we are taking to improve our service.

We also undertook a benchmarking exercise with a wholesaler and retailer to review rejections performance and identify where we could learn lessons to help reduce rejections. We identified that our rejection rates were high where we were unable to contact the customer to make an appointment for a site visit. This was reinforced by specific feedback

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from another retailer that our rejection rates were high in this area and that it was causing frustrations for them and their customers.

In response to this, we now pause a case for two weeks to give the retailer and customer time to come back to us to book a date. We have also put in place a direct customer line so that the customer can come back to us directly to arrange the appointment, helping to avoid any further delays. Feedback from retailers in relation to this change has been positive.

16 d) Changes or updates to the form or scope of your wholesaler services, the charges or charging structure for these, and/or any associated SLAs or KPIs associated with the provision of these services? How formal is this consultation?

Our wholesale charges are published in line with charges scheme guidance.

As we set out in response to question 14:

We notify all retailers when we publish any documentation as part of the charges scheme publication process and include within these notifications copies of our statements of significant changes. We also welcome retailers to meet with us to discuss any proposed changes and the impact on their businesses. See evidence item 14: *Wholesale Charges Bulletin 2020-21*.

We aim to provide as much advance notice as would reasonably be required by retailers to make any necessary changes to accommodate changes to charges. For example, we will be introducing charges for water supplied to premises marked as vacant from 1 April 2020. Recognising the impact of this change on retailers we notified them of our intent 17 months in advance.

We have also shared face to face and in detail with all retailers (who have agreed to meet with us) our improvement strategy for 2019/20 and requested feedback as to whether

- a. we have identified the correct customer outcomes to target and
- b. the activities that we are undertaking are appropriate and will add value.

The feedback from retailers has been positive and was referenced in recent RME pilot results.

We have intentionally generally avoided formal consultation processes recognising the volume and frequency of market change and other RWG and MOSL consultations and requests and retailer feedback that capacity to respond to the existing requests is limited and that they cannot respond to all. If each wholesaler was to formally consult on a number of other items each year then the retailers would likely be unable to respond meaningfully to each one.

We have therefore, adopted a slightly less formal approach, which is built on frequent dialogue and face to face interactions. This seems to suit the retailers with whom we interact.

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B17. Concerning credit and payment terms, do you offer:

17 a) Alternative credit arrangements under Schedule 3 of the Business Terms of the Wholesale-Retail Code? If you have, what have you agreed and why? If not, or if you have refused a request for Schedule 3 terms, why not / why refused?

UU takes its responsibilities to support the non-household market seriously and has taken innovative and active steps to promote this market by way of credit terms flexibility.

We currently offer two Alternative Eligible Credit Support options:

1. In response to the challenges evident early in the market for new entrant retailers, who considered the initial collateral requirements too high, in March 2018 we proactively introduced the most generous alternative credit option available, enabling retailers to more easily enter the market. This entitles retailers to an unsecured credit allowance covering the first £200k of their Credit Support Requirement where they could demonstrate good payment behaviour. Out of 23 retailers, including self-supply, 12 are now signed up to this alternative credit agreements.
2. To cater for retailers who do not have an investment grade credit rating, but can otherwise demonstrate a very high level of financial security and very low credit risk, in March 2019 we introduced an option for retailers to obtain unsecured credit to the value of 2% of a retailers Dun and Bradstreet Credit Score Reports "Maximum Recommended Credit Limit". As of October 2019 two retailers have signed up to this option.

We give due and proper consideration to any alternative credit proposals, without unreasonable delay, and to negotiate in good faith with each retailer. On occasion we have decided that a retailer's proposal was unreasonable, we have worked proactively to engage with them to provide sound and evidential reason for our decisions. We have been innovative, designing and delivering solutions that meet the needs of all retailers in a fair and consistent way. There have been two specific proposals where we have not been able to agree to a retailer's initial proposal:

- On 9 June 2017, a retailer proposed a form of credit support based on trader credit insurance. We were unable to agree this proposal as we would have no visibility of the SPIDS, or values included under its cover. In addition we would not have been named as the beneficiary in a case of default or non-payment and therefore it failed to recognise the risk of retailer insolvency. Rather than simply refuse their proposal we engaged with the retailer at length to understand the challenges they faced as a new entrant, and also recognised the measures they had taken to ensure their financial sustainability and reduce their risk of default. As a result we determined that their proposal, although not being suitable to cover their full Credit Support Requirement was comparable to that used to support an unsecured credit allowance. We therefore offered the retailer a 20% Unsecured Credit Allowance towards their Credit Support Requirement. In May 2018 this arrangement was superseded by our offer of £200,000, which now covers 100% of their Credit Support Balance.

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- On 3 May 2018 a retailer wrote to all wholesalers to request Schedule 3 Alternative Credit Support Arrangements based on the Credit Scoring Agencies Maximum Recommended Credit limit, or Contract Limit held within their Credit Score Report. We responded promptly to this letter to advise that we recognise a good payment behaviour as a measure of credit worthiness and as such had already offered £200,000 unsecured credit to them which at the time covered 100% of their Credit Support Balance. We received a further proposal from the retailer on 11th April 2019 requesting an Unsecured Credit Allowance equal to 100% of their Credit Support Requirement, so far as they hold a record of 12 month payment made on time, and the value does not exceed the Recommended Credit Limit of one of the recognised Credit Support Agencies. We responded substantively to their request on 26th April 2019 to inform them that we regrettably were unable to accept their proposal in its current form for the following reasons:
 - The proposal would have resulted in a material increase to the unsecured credit risk of United Utilities. We agreed that the proposed approach is one which in theory could be applicable equally to all eligible retailers and as such as a responsible business we must therefore also consider the total theoretical value of any unsecured financial exposure and overall risk of retailer default.
 - In providing services to retailers, wholesalers face a risk that the retailer may default after it has already provided wholesale services for a period. Wholesalers cannot directly manage this risk since they have no direct relationship with end-customers nor with the management of the retailer. Unlike a normal commercial relationship, there are limits to an appointed wholesaler's ability to discriminate in the nature, quantity or pricing of supplies to third parties who wish to purchase services from it.
 - In order to mitigate the wholesaler credit risk, retailers are required to provide collateral to wholesalers. The Wholesale Retail Code requires collateral sufficient to cover 60% of the charges at risk of non-payment following a retailer default. The remaining 40% exposure is already provided, unfunded, by the wholesaler.

We offered the retailer a new form of Alternative Eligible Credit arrangement terms on 12 April 2019, where we had used the Maximum Recommended Credit Limit as a measure to afford a further degree of unsecured credit. However, for this retailer it would have been below the level currently available to them under Schedule 2E, and also below our £200,000 unsecured Alternative Eligible Credit Support offering.

17 b) Alternative payment arrangements, under Section 9.2.4 and Schedule 3A of the Business Terms of the Wholesale-Retail Code Please describe. If not, why not?

We do not currently offer any alternative payment terms.

We received an email from a retailer on 23 January 2019 enquiring whether we would consider introducing any extended Alternative Payment Arrangements post implementation of Schedule 3A Business Terms to either 60 days or 90 days post invoice, or a mix of the two for bi-annual read customers reflecting their typically longer payment cycles.

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We responded to advise that we would welcome any proposal, however in order for us to give it full and proper consideration we would require the retailer to provide further information along the following lines:

- Ideally a draft agreement that sets out the terms and conditions of their proposed arrangement, cognisant of the Schedule 3A key terms.
- How they propose the arrangements would be compatible with the Market Settlement Process and timetable
- What additional credit protection would be offered to ensure that the arrangements remain consistent with any Credit Support arrangements required between the Parties, and that the U UW credit risk is not materially increased.
- Detail whether their proposal is intending to extend payment terms to their whole portfolio of SPIDs within the U UW area, or for different payment terms to apply to sub sets of SPIDs based on certain characteristics, and if so on what basis.

We also advised that our systems, process, reporting and governance controls were built in line with coded requirements designed for settlement of a single settlement report for a single retailer, for each settlement period. It would be challenging to accommodate the invoicing, or part settlement reports without significant investment. We would need to also fully consider the implications of bespoke payment terms for individual retailers, the processing, operation, and implementation costs which may result.

We have recently received a more detailed proposal for alternative payment terms. We are currently engaged in discussions with this retailer to better understand the proposal and we will give due consideration to the proposals.

17 c) tailored offerings under (a) or (b) above to reflect specific characteristics of retailers (for example, self-supply retailers)? If not, please explain why this is the case.

Our range of credit support options are designed to cater for all retailers on a like for like basis and have been well received by both standard and self-supply retailers.

The majority of new entrants and smaller retailers tend to opt for our £200K offering, while self-supply tend to opt for the 2% of their maximum Recommended Credit Limit option.

For each option we have considered the overall risk posed, and ensure these options are provided consistently across equivalent trading parties.

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B18. There is currently a gap in the protections available to customers under the Alternative Dispute Resolution (ADR) provisions insofar as non-household customers cannot get a remedy which is binding on the wholesaler. What, if any, unilateral actions have you taken to address the ADR gap in relation to compensation from wholesalers?

We have informed all retailers that we will honour the wholesale charge element of any ADR ruling as long as we have the opportunity to review and provide input into the retailer's case. We have paid the wholesale element on one occasion on this basis despite the absence of a formal ruling to do so.

Where we have changed our original decision following the ADR we have reimbursed to retailers the ADR fee and made full adjustments to the customer's wholesale charges via their retailer.

More recently ADR appear not to be making judgements in relation to wholesale charging issues and instead, when finding in favour of the customer, compensating the customer small amounts for failings in retail obligations only. We recognise that this is ineffective and does not offer a complete resolution for customers.

WATRS recognise that the process is no longer fit for purpose for business customers and we believe that action is being taken to address this.

In the meantime, if ADR was to rule on wholesale charging issues then we remain committed to covering the wholesale element of any instructed settlement, in line with the commitment above.

We have committed to provide refunds to customers via the retailer, following ADR – where the findings have been in the customer's favour – despite no ruling to do so. In addition we review all ADR cases that we are aware of, both before submission and after decision, if there is a recommendation that something is requested from the wholesaler we will honour that recommendation.

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B19. In 2018/19, how many requests did you receive from, and how many separate payments did you make to, retailers under the Guaranteed Standards Scheme? How many, if any, of the requests were subject to dispute between you and the relevant retailer(s)? How many, if any, of the payments made were subject to dispute between you and the relevant retailer(s)?

We make GSS payments to retailers proactively following a GSS regulation failure. Individual notifications are sent to retailers whenever a GSS payment is due and we make a single consolidated monthly payment to each retailer for all GSS payments due in the previous month. As we pay GSS proactively we did not receive any requests for GSS from retailers in 2018/19.

In 2018/19 we made GSS regulation failures payments to retailers in relation to events affecting 1,305 end customers.

We have received requests from retailers via CCWater for discretionary payments, however these do not fall under GSS and therefore are not including in these figures.

We have had no disputes with retailers in relation to GSS in 2018/19. Please note that we do not pay GSS if the property is marked as vacant during the period of the service failing.

Annex C: Questions relating to the Market for Developer Services

Developer services and new connections market overview

Aim: To better understand the market context and what actions you are taking to promote an effective market

1. Please explain how your developer services teams manage their competition law obligations in delivering services to developers, New Appointments and Variations (NAVs) and self-lay providers (SLPs) and in-house operations?

Our developer services team do not actively seek to compete with NAVs and SLPs and in 2018/19 SLPs constructed over 80% of new mains.

Notwithstanding this we take our obligations under competition law seriously. We have policies and procedures which clearly set out our approach to operation in competitive markets and we undertake training, both face to face and online, as well as operating a whistle blowing mechanism

The North West is home to a vibrant competitive market for developer services. United Utilities has over many years taken positive steps to support this market, including actions to ensure a level playing field exists, underpinning the management of our competition law obligations. The most important element underpinning our support of this vibrant developer services market is the culture of compliance, collaboration and support we have fostered. Early in the development of the self-lay market we reached a clear conclusion regarding what is important to UU in terms of developer services. It is not who builds the infrastructure; but that the infrastructure that is built is of a good standard. So we have been agnostic as to the delivery mechanism and focused on getting these good assets built. This view pervades our engagement with the self-lay market: we are not interested in competing with self-lay providers, our focus is on making the outputs from this market support effective and efficient operation. In following this approach we have worked closely with SLPs aimed not at stifling their activity, but in working towards the outputs they provide meeting the needs of both us as an asset operator and customers.

In 2018/19, within the UU region, Self-Lay Providers (SLPs) constructed over 80% of new mains and undertook over 85% of connections to new properties off new mains. It is our view that, the level of self-lay activity observed in the North West demonstrates the market is operating successfully without significant barriers to competition. Notwithstanding this high level of SLP activity we continue to recognise and act in line with our responsibilities to support and encourage a market for developer services.

We take our obligations under competition law and the delivery of a level playing field seriously. We take a risk based approach to help us consider the impact on compliance of all the activities we undertake, including our activity in relation to developer services. This consideration of risk includes identification of mitigation where appropriate. Mitigation

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includes, training, both face to face and online. To support this risk based approach to compliance we have policies and procedures clearly setting out our approach to operation in competitive markets. We also have a whistleblowing mechanism aimed at encouraging employees to flag concerns. To consider the risks and appropriate response we receive support and advice on level playing field and competition issues from in-house legal and regulation teams, alongside external legal advice when necessary. In developing charges and tariffs we take due consideration as to our obligations in terms of competition law. For the NAV and wider developer services markets we use a relationship manager model to support market participants and provide an outlet to raise concerns. All these steps are in place to support the continual smooth operation of the developer services market and are built on a foundation of a strong compliance culture.

In the developer services market we focus our challenge on issues where those changes have a negative impact on our ability to operate, or on the outcomes for customers. In adhering to clear processes, there is a risk that we can at times seem slow to adapt and meet the changing needs of the developer services market. This is something we need to be conscious of and challenge ourselves on from time to time.

Fair Water Connections, in its press release dated the 4th of October 2019, highlighted the concerns of the SLPs they represent in relation to the new adoptions agreement stating:

“Nationally whilst some companies, led by United Utilities, have embraced connection competition others have had a very different stance”.

In answering the following questions we have highlighted some of the substantial efforts made to engage with participants in the developer services market. This engagement and relationships built off the back of this engagement greatly help our efforts to ensure compliance with competition law, in helping us understand the impact our actions have on customers operating in this market.

2. Please describe what actions you take to promote a vibrant and effective developer services market on an ongoing basis.

We seek to promote the developer service market through a number of channels including our Developer Relationship Manager, regular technical forums, charging sessions, regular planned stakeholder meetings and our annual developer conference which has been very well attended for a number of years

United Utilities continues to promote an effective and competitive market by aiming to offer industry leading developer services through proactive and open engagement with our customers. This engagement informs continuous improvement plans to ensure that our service is in line with customer expectations.

This engagement is performed through a number of channels including our Developer Relationship Manager, regular technical forums, charging sessions, regular planned stakeholder meetings, day to day meetings and conversations and our annual developer conference which has been very well attended for a number of years.

United Utilities is also proactive in its engagement being very keen to engage with industry groups to contribute to new ideas, share best practice and develop our understanding with a view to facilitate an effective developer services market. UU representatives have been and are involved with a number of groups such as the Water UK code working groups, the adoption code water governance panel and one of our Technical Managers is the sitting chair of the Water Industry Regulation Scheme Advisory Panel. As well as engagement with our customers and their agents/contractors, we also engage with and contribute to other trade body activities such as the Home Builder Federation technical forums and their Water and Sewerage Futures Group. These interactions provide a platform for discussion and opportunity to provide updates on current topics, as well as encouraging innovation in the sector such as a 'smart metering' trial that is currently underway on a new development in Sandbach.

With over 85% (2018/19) of connections to new water mains being made by SLPs within the UU area, 18217 properties, we feel that we are well placed to contribute to share our understanding and best practice and continue to champion a vibrant developer services market via healthy competition.

3. To enable a better understanding of the market, at a high level please describe the following points. Note that no supporting data is required to be submitted for this question, if it is not easily obtainable:

Approximately 75% of sites are single property sites, although 60% of plots are developed through large developments of > 100 properties. The majority of our developer customers are small scale applicants, with our five largest developers making up approximately 15% of connections

- (a) What is the breakdown in size of developments you are seeing each year (e.g. of new connections, the % of single properties, % small developments <20 properties, % medium >20 and <100 properties, % of large developments >100 properties)?

The below table shows the sizes of development and the number of plots attributed using the last 12 months of data, October 2018 to October 2019. Prior to October 2018 we did not collect this data. The majority of these connections are for a single building such as one off residential, commercial or high density (such as high rise) developments.

A breakdown in the size of developments between October 2018 and October 2019:

| Size of development | No Sites | No Plots | % by site | % by plot |
|---------------------|----------|----------|-----------|-----------|
| Single properties | 1165 | 1165 | 74.8 | 4.91 |
| <20 properties | 168 | 1419 | 10.8 | 5.97 |
| >20<100 properties | 142 | 6816 | 9.1 | 28.70 |
| >100 properties | 82 | 14349 | 5.2 | 60.42 |

Water connections can be measured by plot or by housing unit. A single wastewater connection can have a number of units/plots attributed to it. We believe it may be useful to also see information relating to wastewater connections. The below table shows volumes of sewer connections, adoptions and diversions in 2018/19.

Sewer Connection (s106) Applications:

| Size | No. of applications | % |
|-------------------|---------------------|-----|
| Large (101+) | 40 | 5% |
| Medium (21 - 100) | 65 | 8% |
| Small (2 - 20) | 347 | 41% |
| Single properties | 390 | 46% |
| Grand Total | 842 | |

Adoption (s104) and Diversion (S185) Applications:

| Size | No. of applications | % |
|-------------------|---------------------|-----|
| Large (101+) | 86 | 28% |
| Medium (21 - 100) | 146 | 48% |
| Small (1 - 20) | 73 | 24% |
| Grand Total | 305 | |

Combined Applications:

| Size | No. of applications | % |
|-------------------|---------------------|-----|
| Large (101+) | 126 | 11% |
| Medium (21 - 100) | 211 | 18% |
| Small (1 - 20) | 810 | 71% |
| Grand Total | 1147 | |

There are currently a number of live planning applications for larger developments (>500 units) in the North West, see table below. Planning applications are valid for between 3-5 years. Although currently under one overarching permission, they may materialise into smaller phases for the purposes of applications to developer services for adoption of water and wastewater assets.

Summary of the large planning applications which are progressing in the North West:

| Year | Number of planning applications over 500 units |
|--|--|
| 1 st April 2016 – 31 st March 2017 | 12 |
| 1 st April 2017 – 31 st March 2018 | 27 |
| 1 st April 2018 – 31 st March 2019 | 22 |
| 1 st April 2019 - Present | 7 |

Of these, there are 20 sites identified within the Greater Manchester Spatial Framework that are >500 units equating to approximately 30,000 individual units to be delivered over the next 20 years.

(b) What is the breakdown in developer customers (i.e. customers who are not SLPs or NAVs) you are seeing, e.g. what proportion of new connections is for your five largest developer customers? How many developer customers might you have in one year?

Over the last 12 months we have made 13,778 connections. It is difficult to be definitive as to the number of unique applicants as we have records of 1668 unique applicants, however we know that some of these are duplicates. For example misspelling of address and names, and estimate that there are about 1300 truly unique applicants, excluding NAVs and SLPs. Where a developer is not using an SLP, they will either apply directly or via another agent (such as a building services engineer or consultant) to arrange the water connection. Therefore we are unable to directly attribute all connections to a specific developer.

15.48% of the connections made in the last 12 months can be attributed to the following companies.

- [redacted] [redacted] (developer – applying to us direct)
- [redacted] [redacted] (developer – applying to us direct)
- [redacted] [redacted] (agent acting on behalf of a developer(s))
- [redacted] [redacted] (agent acting on behalf of a developer(s))
- [redacted] [redacted] (agent acting on behalf of a developer(s))

The below list shows our top 5 developers based upon the number of wastewater applications (adoption and diversion 2018/19):

| Order | Developer | Scale %* |
|-------|-----------------------|----------|
| 1 | [redacted] [redacted] | 4 |
| 2 | [redacted] [redacted] | 3 |
| 3 | [redacted] [redacted] | 3 |
| 4 | [redacted] [redacted] | 2 |
| 5 | [redacted] [redacted] | 2 |

*percentage of overall applications

The developer may have in-house design capability or commission a consulting civil engineer to produce their design. Our top 5 consulting engineers for the same period are:

| Order | Consulting Engineers | Scale %* |
|-------|-----------------------|----------|
| 1 | [redacted] [redacted] | 10 |
| 2 | [redacted] [redacted] | 7 |
| 3 | [redacted] [redacted] | 6 |
| 4 | [redacted] [redacted] | 5 |
| 5 | [redacted] [redacted] | 4 |

As with applications for water services (not SLP), a developer is still more likely to commission an agent to make wastewater applications on their behalf. This can be for sewer connection, adoption, diversion or pre-development enquiries. This is reflective in the top 5 wastewater contacts (from applications over the last 12 months rolling data), which is dominated by consultant engineers.

| Order | Wastewater contacts | | Scale %* |
|-------|---------------------|-----|----------|
| 1 | [X] | [X] | 3 |
| 2 | [X] | [X] | 2 |
| 3 | [X] | [X] | 2 |
| 4 | [X] | [X] | 2 |
| 5 | [X] | [X] | 2 |

(c) What proportions of new connections are brownfield vs. greenfield?

We do not capture the proportions of connections made in brownfield or greenfield locations. The designation of a site as brownfield or greenfield is usually a material consideration for the Local Planning Authority to assist in the determination of planning applications.

4. Please provide information on SLPs in your area:

In 2018/19 28 SLPs carried out new connections in our area. We have worked with 55 different SLPs since 2005. SLPs tend to provide a design and construction service and compete for a wide range of developments

(a) How many SLPs have carried out new connections in your area (number of SLP companies as opposed to number of SLP connections)?

In 2018/19 we entered into adoption agreements with 28 different Self Lay Providers. Since 2005 our records indicate we have worked with 55 different SLPs.

(b) What services do SLPs tend to provide (e.g. do they do the design themselves; are they multi-utility or water only)?

It is our understanding that SLPs provide design and construction services for gas, electric and water connections to developers. In 2018/19, United Utilities Developer Services introduced a 'design service' for self-lay activity. However uptake was very low and the service was subsequently removed for 2019/20. In reviewing this service, SLP customers informed us that many had their own design functions and those who did not found our timescales for providing these services uncompetitive.

(c) Do they tend to compete for a particular size or type of development? Please describe the size/type of development.

Given the high level of SLP activity in the North West, we observe SLPs competing for a wide range of developments. This includes new housing developments as well as industrial or commercial schemes. It is understood that most schemes (large or small) form part of a multi-utility offering. We have observed that SLPs traditionally shy away from smaller developments, 20 properties or below; or sites where there are complex engineering difficulties (bridge, canal or railway crossings); or 3rd party land access constrains. However we note that a number of new entrants into the SLP market appear to now be targeting smaller schemes.

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5. Please note any other aspects of the market that are helpful context for your area.

Due to the high level of SLP activity in the North West it may be relatively more difficult for NAVs to enter the market. We are reorganising our Developer Service function to better align with customer needs.

UU offers a strictly neutral approach to the delivery of new connections which is informed by customer choice. We believe this to be reflected by the fact that:

- Over 80% of new mains laid in 2018/19 were designed and constructed by SLPs
- Over 50% of all new connections made in 2018/19 were made by SLPs
- Over 85% of new properties connecting to new mains in 2018/19 were connected by SLPs.

UU is currently reviewing its approach to new connections from existing mains in line with the requirements of the new Sector Guidance as informed by the Ofwat Code for Adoption. This work will hopefully make it more efficient for both SLPs and incumbents to operate in this market.

The high levels of SLP activity means that developers in the North West already have active choices they can make as to who provides them developer services. We believe that it could be more challenging for NAVs - who are looking to compete with established SLPs - to enter the market in the North West.

We are continually working on improvements to our services based upon evolving customer expectations. It has become clear to us following a review of the initial feedback from D-MeX that we have a wider range of different customers with differing needs than we had previously considered.

To ensure that we are best placed to serve the different types of customers, we have moved our Developer Services function, as of September 2019, into our Customer Directorate and reviewed our team structures to align with customer needs. We are also preparing a customer focussed transformation plan to develop our ways of working. This plan will be based upon team and customer feedback.

The reorganisation of our Developer Services function has informed our decision in part to postpone our work on our proposed new IT system (and portal) until we have embedded organisational changes, improved processes and other elements of customer service. We have recently completed the 'discovery phase' of the IT systems needs and have reached a natural breakpoint to review requirements and costings.

Charges for new connections and developer services

Aim: To understand what progress has been made since Emma Kelso's letter earlier this year, to better understand how each company goes about setting its charges and to understand why there may be differences between companies

6. Emma Kelso's letter of 29 April 2019 requested that you urgently review your new connection charges to ensure that they are cost reflective, transparent and do not prevent, restrict or distort competition.

We believe that we have a good understanding of the charging rule requirements and the steps we have taken to comply with them. As part of our review for 2020/21 charges we have identified a number of areas for consideration including income offset, building water and infrastructure charges.

6a) Please provide details of what work you have carried out in response to this letter. If a review was carried out, please send us the conclusions of the review and explain how this has been communicated internally.

As confirmed in our response on 11 July 2019 to the letter of 29 April 2019 we believe that we have a good understanding of the charging rule requirements and the steps we have taken to comply with them.

In response to the original letter we reviewed the points raised and undertook an assessment on how UUW has complied with points raised.

This assessment was included as an appendix in our response letter (11 July 2019).

We have published this assessment of our 2019/20 charges alongside our main charging rules compliance document on our website and have taken steps to incorporate the assessment into the annual charges assurance process for 2020/21 onwards.

The document can be found here:

https://www.unitedutilities.com/globalassets/documents/builders--developers-docs/new-connections-compliance-with-competition-law-and-charging-rules-19_20.pdf

The results of the assessment were discussed in our internal Developer Services Charges Reform Group meeting on 13 May 2019 and 10 June 2019.

Opportunities for further improvements to the new connection charges were incorporated into the charges improvement process for 2020/21 and included the following charges for review:

- unmetered building water charges
- design fee (administration and processing)
- service connections

6b) What changes have you made to your charging arrangements since the letter?

No explicit changes were made to the 2019/20 published charges scheme/charging arrangements as a result of the letter. We have however, 1) consulted on our charges schemes/arrangements widely including as part of the annual developer day and we have held a specific charges stakeholder session, participants included NAVs, SLPs, developers and representative bodies, 2) responded on a case by case basis to any issues that are raised bilaterally and 3) in responding to the 29 April letter invited Ofwat to highlight any specific areas of concern so that we could review them and take action where necessary.

Following our compliance review against the original letter we did not feel that there was anything sufficiently concerning that required urgent action to be taken in respect of our existing published charges for the year 2019/20. Instead we have considered improvement actions for the following charging year in 2020/21.

6c) What changes are you planning to make, and what are the timings for the implementation of change?

As part of our annual charges assurance processes we review our charges each year to assess cost reflectivity. As part of our review for 2020/21 charges we have identified the following areas for consideration:

(i) **Impact of changing contractor rates on new connection charges.** We have identified the current charges set may need to be amended to ensure that we are fully recovering the appropriate total costs of providing the service. The change has been identified following the re-negotiation of contractor rates.

(ii) **Building water.** We continue to offer developer customers the option to have a measured supply, but developer customers prefer a fixed unmetered charge for simplicity and cost certainty. We identified the need to undertake further work with developers to ensure that the charge is cost reflective, taking into account a number of different development types. We are about to commence a survey of a number of developments over the next year to better inform this charge.

(iii) **Income offset.** We have already transitioned our income offset to be on a "per plot" basis, in anticipation of its move to be set against infrastructure charges from 2020/21. We have now also examined further details for how this will change. The current basis (a) caps the income offset at the value of the scheme and (b) only applies to connections to a new main. Following transition to infrastructure charges from 2020/21, the income offset will not be capped and would also apply to those connections made to an existing main. As the result of the changes the value of the income offset per plot would need to take into account such changes as well as any adjustments required in order to comply with Rule 19 (maintaining the balance of charges) of the Charging Rules for New Connections Services.

(iv) **Timing of payments on infrastructure charges and income offsets.** These have been reviewed to ensure we treat all types of developer customers (developers, SLPs and NAVs) on a consistent basis.

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(v) **Infrastructure charges**. We have received feedback from key stakeholders that transparency of our calculation of infrastructure charges could be improved. We are planning to include in our charges schemes for 2020/21 a table detailing the forecast costs and volumes assumptions used to derive the infrastructure charge.

In addition we have had discussions with NAVs and other representatives of the developer and SLP community about infrastructure charges. We are committed to ensuring that the infrastructure charges set are reflective of costs and are committed to updating those over time to reflect the appropriate forecast. Further we are also looking into options around zonal charging and are gathering data in this area to see if that could be supported.

As part of the 2020/21 annual charges review, we continue to undertake a wide range of stakeholder engagement activities which included focus group sessions, information published on our website, our "Developer Day" event and separate discussions and sharing of our draft charges scheme with a number of individual stakeholders. We have raised the areas noted above with developer customers at our Developer Day on 2 October 2019. These sessions include discussing our proposed approach to setting charges, including areas under review.

The agenda for the focus group session held on 1 April 2019 was as follows:

- Developer Services and Metering Update (including key contacts for developers)
- Stakeholder engagement in focus (timeline for engagement for the next charging year 2020/21)
- Looking back – how do we start to set our charges (infrastructure charges, site specific charges, income offset)
- Current Charges for 2019/20 (key changes for 19/20 – design fee, timing of payment for connections to existing main, new charges)
- Looking Ahead 2020/21 (changes to come post 1 April 2020)
- Time to talk (including feedback on transparency and reasonableness of charges, areas for improvements and opportunity for questions)
- Key messages (summary of key discussion points and feedback from the day)

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7. Please explain how your charges reflect costs:

We review our charges each year to assess cost reflectivity, using specific audited models for each type of charge. Requisition charges directly reflect construction costs with infrastructure charges also reflecting longer term variations in anticipated workload. We do not vary costs across our region although we are examining the potential for zonal infrastructure charges.

7a) How did you calculate the charges? What were your data inputs?

We review our charges each year to assess cost reflectivity. Our charges are calculated based on the service being provided and will include relevant costs. Examples include contractor rates, materials, administration costs and corporate overheads.

There are numerous inputs to calculate the charges and there are four main charging models to calculate the new connections and developers services charges:

- water charges model, which covers charges which are primarily driven by contractor rates (such as connections, requisitions and diversions), but input also includes appropriate overheads
- wastewater charges model, which covers charges which are primarily driven by administrative and legal costs (such as new connections to a public sewer, sewer adoption fees, legal fees, requisitions and diversions). Separate to this there is a separate schedule of rates relating to the wastewater construction costs (for requisitions and diversions)
- infrastructure charges model used to calculate the infrastructure charges to be set for water and wastewater. The inputs for this model include network reinforcement expenditure over five years and forecast new connections over five years.
- income offset model, this follows best practice for ensuring that we maintain the balance in accordance with rule 19, using three methods to assess the balance of charges between developers and bill paying customers. We engaged external assurance to assess our approach to maintaining the balance in setting 2018/19 charges. The same approach to maintaining the balance was taken for 2019/20 charges and for the PR19 business plan submission.

Methodologies are reviewed and updated each year for each model and these are reviewed annually by our internal audit team, see evidence item 15: *Methodology for setting 2019/20 mains laying & connection charges*.

7b) For requisition charges and infrastructure charges (and other charges if applicable), explain what you consider to be relevant drivers of costs and how these have been used to determine relevant charges.

When calculating charges appropriate cost drivers are identified for each service being provided. See evidence item 15: *Methodology for setting 2019/20 mains laying & connection charges*. Within this document we set out the methodology for calculating water connections, requisition and other relevant charges, including identifying appropriate cost drivers.

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In setting the infrastructure charges there is a charging rule requirement that over a rolling five year period the infrastructure charges levied should cover the cost of the network reinforcement. In order to satisfy this charging rule requirement the relevant cost drivers include:

- forecast expenditure over a five year period
- forecast connection volumes over a five year period

In relation to requisition costs the key cost drivers include the surface type of mains laying required and the length of mains laying required. As an example the construction charges for laying new water mains are charged on a per meter basis to reflect the costs associated with the pipe material and diameter and the surface type. It is more resource intensive (labour, plant etc.) to lay a pipe in ground that is surfaced rather than unsurfaced ground and our contractor rates reflect this difference.

7c) Do cost drivers vary across your region? If so, how are, or will, these differences be reflected in charges?

There may be regional variations in costs, but currently our charges generally are not de-averaged across our region. In part this is due to the high degree of integration in our water supply network. Also, the contractor rates negotiated for new connections are based on the surface type and pipe diameter size as these would be regarded as the having the biggest impact on the cost of providing the service as they would reflect the cost of the appropriate labour, materials and plant and equipment.

We are currently reviewing whether there is any justification for implementing zonal infrastructure charges. We are assessing our forecast network expenditure projects to determine whether or not there is sufficient evidence to support the introduction of zonal charges due to geographical variations in required expenditure. However, the majority of our water supply system is part of a single "integrated zone", and therefore it may not be possible to attribute the local costs of network reinforcement between support for localised developments rather than support for the integrated zone as a whole.

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8. Where you rely on contractor rates to determine cost, please provide more information about those rates:

Where we rely on contractor rates, these are generally based upon a schedule of rates plus on-costs. These rates apply to a wide range of services, with the costs we charge being directly related to the competitively tendered rates we pay to our contractors.

8a) How are costs structured or formulated (e.g. are they based on a schedule of rates)?

Construction costs for standard activities are calculated based on a commercially tendered schedule of rates. Additional non-standard items, which are also taken from the commercially tendered schedule of rates are then added as appropriate, including additions for permit costs and water meter costs for example. Internal U UW staff recharges are added to the construction costs, plus the appropriate corporate overhead costs to ensure recovery of reasonable cost.

The application fee is calculated using FTE costs at the appropriate employee grade and based on the time taken to undertake each element of the tasks involved, again subject to corporate overhead costs. Rates for service connection administration charges are based on the deemed reasonable costs identified by Ofwat, uplifted annually by RPI. These costs are set out in the April 2014 Ofwat report "Independent review of Section 45 administration fee and overhead costs". For calculation of rates for water connection application charges we use the lesser of actual cost compared to Ofwat stated cost.

8b) What services do contractor rates apply to?

Contractor rates apply to the following services:-

- (a) Service connection costs
- (b) Main laying costs (requisitions)
- (c) Branch connections (SLP enabling works)
- (d) Mains diversion costs
- (e) Traffic Management costs
- (f) Meter installation costs
- (g) Meter provision costs

8c) What assurance can you provide that these rates are cost reflective? Please provide supporting documentation.

Contracts are awarded through an open tender process. [X] [X] began providing services in this area in 2015 and the rates used were generated following a competitive procurement process (OJEU).

Following the initial three year term, the framework agreement was extended in 2018. This extension included some rate increases and decreases, in addition inflation was taken into account, the overall impact being [X] [X]. As part of this process we benchmarked rates against other competitively tendered frameworks within the Maintenance Category (Repair and Maintenance Activities). We have reviewed the changes in detail comparing our charges against the equivalent charges published by other water companies.

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9. Do you have any of the following instances:

We do not levy a charge on one customer type and not another and believe that all the charges we do levy are via our published charges scheme

9a) Do you have any similar services for which you levy a charge on one customer type (developer, NAV, SLP, etc.) and not another? If so, please describe the service and the reason for the difference.

Our published charges have been built up to reflect the costs associated with providing each service appropriate to the customer type. We do not believe that we have any similar services where we would levy a charge on one customer type and not another.

9b) What charges do you levy on SLPs, NAVs (directly, through a developer, or through a third party) or developers, that are not published in your charging arrangements, charges scheme, or bulk charges (for NAVs)? Please explain the activities to which they relate, and the circumstances in which they apply.

We believe that all the appropriate charges levied are published in our charging arrangements, charges scheme and bulk charges.

10. When agreeing a bulk service agreement with a NAV do you:

We agree bulk service agreements with NAVs via a standard bulk supply and bulk discharge agreement, as published on our website. We also operate a number of long standing bulk supply agreements and would welcome industry standard agreements

10a) Publish a standard agreement; or**10b) Provide bespoke agreements for each new site?**

10 i). If you publish a standard agreement, please set out in what circumstances it would not apply and you would seek to agree a bespoke agreement.

10 ii). Please give supporting evidence of this by providing information on the forms of bulk service agreements proposed and / or prepared for different NAV licences, over the last two years.

- (a) i) When agreeing a bulk service agreement with a NAV we use a standard bulk supply and bulk discharge agreement, as published on our website.

<https://www.unitedutilities.com/builders-developers/new-appointment-and-variations/>.

We ensure that the terms of each are both reasonable, and reflective of the operational risk, but most importantly protect the end user customers of both parties. Between September and October 2018 we hosted a number of NAV engagement sessions, during which one NAV shared with us that in the past they have experienced difficulty agreeing terms with wholesalers and as a result this can result in a delay to their application. To avoid this being the case with United Utilities and to expedite the process we shared a draft version of our each of our bulk agreements with those NAVs that don't already have sites in the North West. We have sought feedback from NAVs to further improve these agreements to facilitate a smooth and streamlined process.

(ii) The terms of these standard agreements largely remain unchanged, deviations tend to occur and are limited to where a site has unique characteristics, such as the addition of an onsite privately owned water source, or complex trade effluent arrangements.

Regarding the industry standard bulk supply agreement, we are very supportive of an industry standard bulk supply/bulk discharge agreement, and we continue to contribute actively towards the industry group that is working on this.

Culture, customer experience and quality of service

Aim: To understand how each incumbent water company operates to provide high quality services that meet the needs of their customers.

C11 Please explain how your developer services teams are organised:

To ensure that we are best placed to serve the different types of customers, we have recently moved our Developer Services function into our Customer Directorate and reviewed our team structures to align with customer needs. We are also preparing a customer focussed transformation plan to continue to improve our ways of working

11a) Please provide an organogram, staff numbers and the scope of responsibility for the different teams involved in delivering services for developers/NAV/SLPs.

The Developer Services and Metering team is structured as detailed within evidence item 16: *Developer Services organogram*. This organogram also includes a summary of activities and service offerings. NAV enquiries are currently received by both our wholesale market services function and Developer Services team. Our Developer Services team engage with developers/NAV/SLPs services for the 'point of connection' or 'pre-development enquiry' aspects of their application. Bulk agreements are managed by the wholesale market services team.

We have very recently reviewed our organisational structure within this department to ensure that we are easy to do business with based upon our customer needs. This work includes customer segmentation activity e.g. providing customers such as SLP's a single team point of contact and providing a different offering for 'one-off' customers such as small builders or end-users. Within the organogram two separate customer facing teams are set out with the leads roles entitled "One Off Customer Manager" and "Developer, SLP and NAV Services Manager".

11b) Please indicate which SLP and NAV activities are covered by which teams, and whether those teams cover equivalent activities (if applicable) when the developer is the customer.

SLP and NAV activities are currently handled by our Technical Assurance team. However SLPs may apply for connections off existing mains (that do not form part of a larger development) through our customer delivery team. We are currently reviewing this offering based upon customer feedback to offer SLPs one point of contact. Our current proposals are to bring all developer, SLP, agent and NAV contacts together to provide that very specific type of service. The 'one off' type customers (such as a private individual completing a barn conversion) will require a differentiated service offering which will be provided by a designated team. This segmentation will - we believe - allow us to better serve customers based on their needs.

In organising our Developer Service function we are mindful of the outcome of the Ofwat investigation into the service Bristol Water provided to self-lay organisations in 2015. We considered if it would be necessary to separate out the activities provided directly to

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developers and equivalent services provided to self-lay companies. As can be seen from the structure of our Developer Services function, we do not separate out our provision to developers, SLP and NAVs. We believe that this allows us to provide a consistent efficient service to all customers. Through our high levels of competition in the North West developer service market, our focus on customer service and a clear compliance culture we are enabled to provide a service to all customers within the same function. We continuously review our service delivery and take any concerns raised by developer services customers seriously.

Adoption of new mains (constructed by SLPs) and statutory mains requisition are covered by our Water Technical team. This team is headed by two managers; one covering the North area of the UU region and the other covering the South area. In total they have 10 Design Engineers who are responsible for all activity within a designated geographical area providing mains design or design approval services. The engineers are also responsible for the design of non-contestable work such as mains diversions. The team will also respond to point of connection enquires from NAVs (with wastewater input). The Water Technical team is supported by two Assistant Engineers and support staff who assist with other activities such as point of connection enquiries.

12. Please provide a description of your approach to engaging with developers, SLPs and NAVs over the last year, including:

We take a pro-active approach to customer and stakeholder engagement, ranging from an annual developer day, through technical forums to site specific discussions. The output from these sessions is demonstrably used to continue to improve our services.

12a) the groups that you have engaged with, the form of engagement and how the engagement was communicated to potentially interested stakeholders;

UU Developer Services take a pro-active approach to customer and stakeholder engagement. This engagement is generally with the following groups:

| Customer type | Number of contacts* |
|---|---------------------|
| Developers, builders, housing associations and construction companies | 630 |
| SLPs (water network design and construction) | 354 |
| Consultant civil and engineers (sewer design) | 628 |
| Civil engineering contractors (sewer construction) and agents (arranging the above services for developers across water and wastewater) | 716 |

*Number of individual contact details held within our stakeholder list as of September 2019.

Developer Services collates stakeholder information such as contact names, numbers and email addresses through the application process. We use these contact details to engage with stakeholders and ensure they have the opportunity to attend any engagement sessions and receive relevant updates. Information and invites are usually communicated by email and followed up verbally during stakeholder engagement meetings. Occasionally events are promoted through business media, including LinkedIn. We held a consultation on NAV charging and have been looking to meet face to face, in addition we have had NAVs attend our developer day.

12b) the topics covered by the engagement (e.g. whether it included information about the proposed levels of charges for the upcoming charging year); and

Engagement activities cover many areas. The table below provides a summary of activities and topics:

| Engagement Activity | Topics |
|---|--|
| Developer Day (frequency: once per annum) | Industry and business updates such as; Regulatory changes, Adoption Codes, upcoming changes to charges, Metering (process for notification of new connections). The day is also heavily focused on obtaining customer feedback on the services we provide across developer services. |

| | |
|--|---|
| Technical forums (frequency: 1 or 2 times per year) | Technical discussions aimed at specific disciplines such as SLPs, agents and developers. In 2019 we have held 3 sessions: 2 with SLPs and developers regarding notification of service connections and the adoption code and 1 with developers and consultant engineers regarding the wastewater adoption code changes to procedures. |
| Charges engagement sessions (frequency: 1 or 2 times per year) | In 2019 we have held 1 group session (as of September 2019) to review the 2018/19 charges and solicit feedback to inform future charges. |
| Key stakeholder meetings (frequency: as often as required, but generally between 2-5 times per year) | We aim to schedule 2 meetings per year to discuss charges with representative groups such as Home Builders Federation, House Builders Association and Fair Water Connections. These meetings may also cover other areas of interest such as adoption codes, SuDS, development forecasts and other regulatory changes such as D-MeX. |
| Stakeholder meetings (frequency: approximately 3-5 times per week) | Our Developer Relationship Manager is responsible for pro-active engagement across our customer base. This includes welcoming new entrants into the area (including SLPs, developers and agents) and also things such as discussing industry change, acting as a point of escalation, reviewing on-going portfolios of work as well as customer experience. |
| Site specific discussions | We aim to operate an ‘open door’ policy and encourage face to face meetings for more challenging and complex sites as appropriate. This option is frequently taken up by customers. |

12c) The process by which contributions from stakeholders are taken into consideration and progress is communicated back to stakeholders.

We address general feedback such as further guidance and clarity on technical matters in a number of ways, including open technical forums (by discipline) and updating website information and documented guidance.

UU continues to consult with relevant stakeholders on its New Connections and Developer Services Charges and Charges Scheme. The Company carried out a variety of stakeholder consultation activities during 2018 and 2019, including a focus group session in June 18 and April 19, and the UU annual developer day in November 18 and October 19.

UU has continued to consult with stakeholders on the approach taken for the development of the connections charges, infrastructure charges and income offset / asset payment, and shared information on the expected changes to the charges. UU considered the feedback received and made changes to the approach taken in setting the charges as a result. UU also presented proposed key changes to the charges scheme for 2019/20 and 2020/21 at its annual “Developer Day” in November 2018 and October 2019 respectively. We also publish a set of “frequently asked questions” to address questions raised by stakeholders since 1 February 2018.

We publish a separate Engagement with Stakeholders document detailing engagement with CCWater on charging in relation to all of our Charges Schemes, and the response taken by UU. This document also contains a summary of stakeholder events held during the year, as well as

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key feedback received from stakeholders and how we have addressed each point. A summary of this engagement activities carried out as part of 2019/20 new connection charges scheme is provided in the tables below.

| Activity | Date | Developers | SLP | HBF | HBA | Fairwater connections | Consultants | NAVs | Ofwat | CCW |
|---|------------------|------------|-----|-----|-----|-----------------------|-------------|------|-------|-----|
| Invite sent for Charging Workshop | 6 June 2018 | ✓ | ✓ | ✓ | | ✓ | ✓ | | | |
| Charging Workshop Group held | 26 June 2018 | ✓ | ✓ | ✓ | | | ✓ | | | |
| Charging Survey Issued | 16 July 2018 | ✓ | ✓ | ✓ | | | ✓ | | | |
| Newsletter Issued inc Charges | 17 October 2018 | ✓ | ✓ | ✓ | | | ✓ | | | ✓ |
| External webpage updated Q & A | 17 October 2018 | | | | | | | | | |
| New connection charges scheme issued for review | 29 October 2018 | | | | | | | | | ✓ |
| Fairwater Connections Engagement | 30 October 2018 | | | | | ✓ | | | | |
| HBF Engagement | 2 November 2018 | | | ✓ | | | | | | |
| 2018 Developer day | 7 November 2018 | ✓ | ✓ | | | | ✓ | ✓ | ✓ | |
| CCW meeting on stakeholder/charges | 22 November 2018 | | | | | | | | | ✓ |
| New connection charges scheme review session | End November | | | ✓ | | ✓ | | | | |
| HBF Engagement | 3 December 2018 | | | ✓ | | | | | | |
| Fairwater Connections Engagement | 6 December 2018 | | | | | ✓ | | | | |
| HBA Engagement | 18 December 2018 | | | | ✓ | | | | | |
| Assurance Statement | 2 January 2019 | | | | | | | | | |

Feedback and questions from these session are collated and addressed as follows:

| Our stakeholders said: | UU response |
|---|---|
| Quotes provided by SLPs to some developers have varied significantly as a result of the publication of the new charges and the way the asset value is being calculated. | At the UU Developer Day 7 November 2018 a section on explaining the difference between the way that asset payments and the new income offset payments are calculated was covered. |
| Network reinforcement – the way some infrastructure is funded is still unclear. Perception that developers will pay for reinforcement within site boundary but do not pay for network reinforcement outside of site boundary. | At the charging focus groups session on 26 June 2018 and the UU Developer Day 7 November 2018 a section on site specific versus network reinforcement was covered. |
| Income offset -the fixed 68% income offset does not work for mixed/commercial sites. A per plot calculation for commercial sites/mixed residential is preferred. | We have changed our approach to income offset for mixed/commercial sites for 2019/20 from a % allowance to a per plot allowance. At the Developer Day 7 November 2018 we shared this proposed change with our stakeholders. |

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| | |
|--|---|
| <p>Infrastructure Discount - How do I apply?</p> | <p>At the charging focus groups session on 26 June 2018 and the UU Developer Day 7 November 2018 a section on how to apply for the infrastructure discount was covered.</p> |
|--|---|

We provide updates on progress made in response to stakeholder feedback both at the focus group sessions and developer day. For those stakeholders unable to attend these events we publish slides presented on the day, the presentations specifically focussing on charging are published <https://www.unitedutilities.com/builders-developers/charges-for-new-connections-and-developer-services-2019-2020/>. Additional materials are made available through our builders and developers webpage <https://www.unitedutilities.com/builders-developers/>.

Over recent months we have been in discussion with a NAV looking to buy from UU emergency service provision cover which would see UU attend the customer site if there is an emergency such as a burst or collapse, with UU rectifying the situation. Initial proposals were problematic with a number of factors making delivery costly and difficult. Subsequently we have been working with the NAV to refine the proposals and are continuing to work with the NAV to see if a viable solution can be provided. Should we be successful then this offering on the same terms would be made available to other NAVs operating in the North West.

12d) Please provide supporting evidence, including emails issued, agendas used, papers or consultations prepared.

Evidence submitted to support our responses within this section include the following documents:

- Evidence item 17: *Engagement and invites from Developer Services*. This evidence includes copies of invites to events such as technical forums, charging workshops and developer day. In addition details of LinkedIn publicity for code consultation and engagement events are included.
- Evidence item 18: *United Utilities Developer Services Newsletter Summer 2019*. This is an example of the newsletters we regularly provide to our developer services customers.
- Evidence 19: *Stakeholder engagement timeline 18-19*.
- Evidence 20: *Understanding our charges - presentation given 2019 developer day*. Presented in the "Charging room" at the 2019 developer day.
- Through the Developer Services website we provide guidance on many aspects of the services provided. <https://www.unitedutilities.com/builders-developers/>
 - A good example of the guidance we provide is our s104 support guide. https://www.unitedutilities.com/globalassets/z_corporate-site/about-us-images/pdf/7664---s104-support-guide-a3-booklet-v6-web-acc.pdf

C13. With respect to information and services provided to NAVs, SLPs and developers:

We do not actively seek to provide different service levels to different customer groups.

We tend to achieve a high percentage compliance against the current levels of service (98.06% overall). Historic performance against the NAV SLAs has been disappointing, we are working to ensure our future performance meets expectations of NAVs going forward.

13a) Do you offer any similar services with operational service levels that differ depending on the customer type (developer, NAV, SLP)? If so, please list the services and explain the reasons for the differences.

We have received a number of 'point of connection' requests from NAVs. This is a similar service to the one provided to developers and SLP's. The Ofwat guidance <https://www.ofwat.gov.uk/wp-content/uploads/2018/08/NAV-application-process-guidance-Sep-18.pdf> detailing minimum information requirements for points of connection requests includes greater detail that is usually required by developers and SLP's. Therefore we are currently engaging with NAV applicants to understand what level of detail they are expecting and how we can provide this to support their application. For example, we do not usually provide a developer with the "design" of required network reinforcement, however NAVs occasionally request this information.

To date NAV activity has been relatively low across the North West. This inactivity may be in part a result of the high level of SLP activity across the North West. Self-Lay Providers provide choice for developers and competition for NAVs. However over the past year we have received an increasing number of NAV enquires regarding 13 sites, asking for points of connection for water and wastewater services. It is our aim to ensure that service levels are consistent whosoever the applicant. To assist with this work we held a meeting with a NAV active in our area on 24 September 2019, to discuss our service offerings and how we can improve. The meeting produced some positive actions for both parties to help develop this relationship. Furthermore, we also invited NAVs to our developer day this year and a provider of services specific to NAVs exhibited at the event.

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13b) There are a number of published Water UK developer service metrics that relate specifically to SLPs. Please provide commentary on your performance with respect to those metrics, including an explanation if any measures are blank.

| Metric Ref | | United Utilities Percentage |
|------------|---|-----------------------------|
| W19.1 | Self-lay point of connection applications - written acknowledgements within target | 99.37% |
| W20.1 | Self-lay Point of Connection report < 500 plots etc. - reports issued within target | 99.89% |
| W21.1 | Self-lay Point of Connection reports >500 plots etc. - reports issued within target | 96.00% |
| W22.1 | Self-lay design approval and terms request application - written acknowledgements within target | 96.98% |
| W23.1 | Self-lay design and terms request <500 plots etc. - quotations within target | 98.87% |
| W24.1 | Self-lay design and terms request >500 plots etc. - quotations within target | 100% |
| W25.1 | Self-lay signed agreement - acknowledgements within target | 98.44% |
| W26.1 | Self-lay water for pressure/bacteriological testing - provided within target | 91.21% |
| W27.1 | Self-lay permanent water supply - provided within target | 97.59% |
| W28.1 | Self-lay vesting certificates - issued within target | 99.63% |
| W29.1 | Self-lay Asset Payments - issued within target | 99.46% |
| W30.1 | Self-lay plot references and costing details - issued within target | 99.30% |

UU achieved a high percentage of compliance against the levels of service as published through Water UK and evolved into the quantitative D-MeX measures (98.06% overall). However, there have been a small proportion of failures against levels of service metrics (1.93% overall). Generally these failures have been due to administrative issues within our function, such as human error or process failings. Each activity that does not achieve the minimum required service is analysed by the responsible manager to understand the root cause. We then take relevant action and apply the appropriate redress. Work is ongoing to improve in these areas.

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13c) Water UK has a draft report on Behavioural Improvements relating to interactions with NAVs. It sets out several SLAs relating to NAVs, please describe your performance against those metrics over the past year.

In the last 12 months, we have received NAV enquiries relating to 13 sites. This represented a substantial increase from the number received in the previous 12 months.

Of these 13 sites, three resulted in a rejected application: two rejections were due to the site already being served and one site was rejected as the NAV asked for UU to consent to the application and we did not agree. Our performance in relation to these rejected applications is included within the figure below.

This year we did not receive any written acceptance of the terms set out in our bulk supply letter. Therefore, we can only assess our performance against the three relevant SLAs:

- Incumbent provides confirmation of unserved status or identifies served properties.
- Incumbent acknowledges receipt of application form and confirms completeness.
- Incumbent provides a bulk service offer letter.

| Application stage | SLA achieved (%) |
|--|------------------|
| Site status confirmation | 30% |
| Incumbent confirms application is complete | 70% |
| Incumbent provides bulk service offer letter | 50% |

We had particular challenges in meeting the site status confirmation SLA. Some of the results above stem from the period prior to the SLA’s development. We chose to send the site status confirmation and the bulk service offer letter together as we considered that NAVs would find this the most convenient way of receiving the information. However, this tended to increase the response time for the site status confirmation past the 21 day SLA. We have now uncoupled the provision of these services to NAVs. We have committed to changing our internal processes going forward to ensure we meet this SLA in the majority of cases.

Two NAV applications were slowed by additional questions raised by the Environment Agency. We met the SLAs for site status and bulk service offer for these sites which allowed the NAV in question to serve Section 8 notices with Ofwat. During the consultation process, the EA raised questions about outfalls to particular water courses. In order to support the NAV’s application, we had to carry out additional modelling work, which carried a non-trivial cost and took time to arrange

Providing such information for each application would substantially slow the process down and it is not clear who should fund the additional cost of modelling.

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While it is clear that the NAV market is in its infancy in the North West, and in some ways we as a company have more to learn, we acknowledge that our performance hasn't always met the standards we strive for. We are currently focusing efforts on improving our service to NAV customers. These efforts have included a series of productive discussions with NAVs. Internally we are in the process of reviewing the end to end NAV process to identify process improvements and any additional systems changes or training needs that may be required.

13d) Are there any examples of instances where you have provided information to NAVs or SLPs at the same time as, or after, providing a quote/offer to the developer of the same site?

For most sites we do not get applications from NAVs and SLPs for sites where we also provide a quote or offer. In the NAV market we are not aware of any current overlapping sites. However one of the developers operating within the North West operates in a way that means they do this for every site they develop. [redacted] [redacted] applies for a statutory main laying design and quote for every housing site they build from UU. They then use these designs and costs as a starting point of a tender process with a number of SLPs, enabling [redacted] [redacted] to get a consistent design against which SLPs tender. [redacted] [redacted] last year chose to work with an SLP for every one of their developments. In 2018/19 of 879 applications for mains only five were for the same site through two separate routes (approximately 0.6% of the total) and all were from the same aforementioned developer, [redacted] [redacted].

C14. With respect to asset adoption, please set out:

We have undertaken a detailed impact assessment to ensure that we will be ready for implementation of the new guidance on asset adoption. We are working with Water UK on the code and have reviewed the implications with a range of stakeholder at our "developer day", via technical forums and by providing relevant literature

14a) How you are ensuring you will be ready for implementation of the new sector guidance and model adoption agreements, once we have approved them and they form part of the Code for Adoption Agreements.

We are currently finalising impact assessments against the requirements of the water and wastewater sector guidance. This guidance has yet to be approved. These include resourcing requirements, system (IT) changes, literature/website updates, reporting requirements and staff training. Following Ofwat approval of the sector guidance and confirmation of any impacts on D-MeX (noting that the sector guidance includes levels of service that are not currently included within the D-MeX measures) then implementation can accelerate.

For UU the new guidance creates two challenges that will take significant effort to address, building the engineering capability for the assessment of SuDS (those that meet the definition of a sewer) and establishing the processes for SLPs to carry out further work on the existing water network whilst managing the associated risks to supplies and customers.

Through Water UK, UU is leading development of national training, supported by most other water companies to understand the principles, application, operation and assessment of SuDS that will be classified as a sewer and therefore adoptable by water companies.

14b) How you have engaged with customers around codes for adoption.

We are working as part of the Water UK group that is developing the code for adoption agreements, including representation on the process and standards group which included self-lay providers. This group reviewed and evolved existing water company documentation covering technical specification, legal requirements and water company procedures within a challenging timeframe.

We supported the associated initial consultation, promoting this and inviting responses at our annual developer conference in 2018. In addition we have referenced this in discussions with a number of stakeholders, but more formally by holding a number of technical forums to inform customers of the anticipated change and informally by promoting through LinkedIn. We have also included some specific content in our annual developer conference held on 2nd of October 2019. Our developer days are consistently well attended, see Evidence item 17: *Engagement and invites from Developer Services*. The latest developer day was attended by around 300 stakeholders, including medium and large sized developers, their agents or contractors such as consulting engineers, SLPs and NAVs.

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It is our intention to engage further with customers as we review our processes and literature to conform to the new sector guidance.

Annex D: Question relating to the effective support and development of new markets (optional)

1. What are you doing to effectively support the development of new markets (e.g. bio resources)?

Development of markets for bioresources

We have been taking positive steps to help facilitate the further development of a wholesale market for bioresources. We were the first WaSC to publish Market Information in October 2017, enabling third parties to understand what opportunities there may be to offer services to UU. We have developed an in-house pricing model, in line with RAG5, to allow us to price both long and short term trading opportunities which arise. Through the Ofwat sludge working group, we proposed an approach to pricing for short-term trades which has been adopted within the Regulatory Accounting Guidelines, and will increase opportunities for trading.

We have been actively engaged in trying to develop bioresources trades with other companies, including undertaking detailed analysis and modelling of sludge treatment facilities across the UK to identify potential trading opportunities. We have proactively contacted all neighbouring WaSCs to discuss trading opportunities. We have ongoing short term trades with [X] [X] (exporting both liquid sludge and sludge cake).

We have also engaged with a third party which is looking to develop a Farm AD plant adjacent to one of our wastewater treatment works in Cumbria. We are exploring the potential for the AD plant to use our sludge as a feedstock.

To date there has been limited interest from the market to provide treatment capacity for bioresources. There has been little in the way of substantive enquiries as a result of publishing our Market Information and there have been no new entrants. However, we will be looking to support work to enable the expansion of a wholesale market for bioresources. We will be continuing our active support and engagement of the development of a bioresources market looking to help address frictions between the treatment of sewage sludge and the wider bioresources market.

To support the further development of competition within the Bioresources arena we are taking a number of additional steps. We are supporting the EA with the development of their sludge strategy that could establish a new approach to transport, treatment and disposal of sludge and other organic wastes. This may enable changes to sludge to land regulations and lower the associated costs that have been an economic barrier to co-treatment.

Environmental regulatory changes will enable sludge to be traded to waste operators as well as bringing other organic wastes into Water Company assets. The first key regulatory change to be implemented relating to sludge treatment is the Industrial Emissions Directive (IED). We are working with the EA to better understand and mitigate the cost implications of implementing the IED at all digestion sites. We are supporting sludge trading and co-treatment by coordinating, on behalf of Water UK, the clarification of the EA Environmental Performance Assessment metric for reporting Satisfactory Sludge Use or Disposal. We believe we are helping

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drive through substantial changes that will support the potential for competition in relation to Bioresources, however there will remain barriers to this market succeeding.

Water trading.

The development of the Water Resource Management Plans (WRMP) includes active efforts to identify and source new resources, alongside water trades. Our approach to market engagement included a range of activities:

- Communicating with known and potential new third parties from a contact list via direct correspondence
- Looking for expressions of interest by publishing a Prior Information Notice within the Official Journal of the European Union (OJEU)
- Publishing a market engagement request 'Can you help us ...' on our external website with response forms.
- Holding a market engagement event to discuss the process with interested third parties that responded to the communications.

The processes we followed resulted in the development of 67 third party unconstrained options (both resource and demand management).

The continuation of the WRMP process alongside the Bid Assessment Framework (BAF) and water resource groups will support the development of the wholesale water resources market. As part of our latest planning process we met a number of companies to discuss the potential for trades.

Severn Thames Transfer.

We are currently investigating the potential for a large scale long distance water transfer; transferring water from the Midlands, Wales and the North West and then transferring it via the River Severn and across to the River Thames. We have actively championed and provided leadership on development of this potential Severn Thames Transfer scheme (STT), leading to its provisional inclusion in AMP7 plans. As part of this work we have agreed the proposal of a system operator model that could work independently of the water companies to facilitate co-operation and effective water trading.

Water resources groups.

We are supportive of the joint industry water resources groups that have been established to discuss cross boundary water resource challenges. UU is a leading member of Water Resources West and member of the Water Resources North groups.

Bilateral competition.

We have proposed an approach to access pricing for the bilateral market, which we consider has contributed to the development of the pricing methodology. We will look for opportunities in the bilateral market and will continue to support the development of the market framework. We are engaging with the development of this market and would welcome opportunities to further support the development of this market.

Facilitating the Bid Assessment Framework

The Bid Assessment Framework (BAF) that was developed by UU, as part of its price review submission, was assessed by Ofwat as passing the requirements set out within its methodology and no further action was required. Our BAF had been published on our website before business plan submission. Following publication of IN 19/01 we reviewed the BAFs published by other companies to identify what improvements we could make and concluded that although our framework is sound, there were some aspects of some other companies' frameworks which were easier to access and understand. We therefore intend to take steps to improve the accessibility and clarity of our own framework. As more company frameworks are published we will continue to review and identify improvements we can make.

Direct Procurement for Customers (DPC)

We have also been actively progressing pathfinder work on the sector's leading candidate project for "Direct Procurement for Customers" and acting as the industry's leading company in testing this approach. We have provided the project for managing the DPC with significant financial resources and management time, have committed to ambitious and stretching timescales of progression and have been active participants in promoting the potential opportunities provided by this approach to the industry, customers and potential Competitively Appointed Providers.

Developing catchment markets

Finally, we also want to highlight that we are excited about pushing the boundaries of markets further with our emerging approach to applying market mechanisms to catchment wide issues. Our approach is to foster catchment marketplaces which allow third party activity to support wider benefits than UU could deliver alone. We were successful in attracting investment from [redacted] [redacted] in the first pilot of this type in the River Eden catchment and are now progressing four further pilots in different areas of the North West. This will continue to be an area of focus for UU going forward.